DOCUMENT RESUME

ED 176 408 EA 012 136

AUTHOR	Wagner, Richard E., Ed.
TITLE	Government Aid to Private Schools: Is It a Trojan Horse? A CIE Paper.
INSTITUTION	Institute for Humane Studies, Menlo Park, Calif.
PUB DATE	79
NOTE	59p.
AVAILABLE FROM	Institute for Humane Studies, 1177 University Drive, Menlo Park, California 94025 ($?.00; quantity discounts)
EDRS PRICE	MF01/PC03 Plus Postage.
DESCRIPTORS	Education Vouchers; Elementary Secondary Education; Federal Aid; Federal Regulation; *Government School Relationship; *Nonpublic School Aid; Private Schools; Public Schools; State Aid; Tuition
IDENTIFIERS	Tax Deductions

ABSTRACT

In this publication, six scholars interested in private education and knowledgeable in economic policy and politics present several different views of government aid to private schools. In the lead essay, William Cage argues that supporters of private schooling are shortsighted in advocating public aid for private education. Government aid, says the author, would convert private schools into mirror images of public schools, for it would bring federal controls that would erode the independence of private schools. Five essays respond to the lead essay. Robert J. Staaf presents two views of the possible consequences of a voucher system or tax credit or tax deduction. Eugenia F. Toma describes the actions government bureaucracies might take in creating controls over private schools. E. G. West suggests that the promotion of a better competitive balance between schools should be pursued by restoring "pricing" (or modest tuition) to the public schools. Richard E. Wagner argues that tax deductions and credits are categorically distinct from such policies as vouchers and direct aid and that deductions can be of great value in strengthening private schooling through their political impact as well as economic impact. Randall G. Holcombe sees a trade-off between the beneficial properties of the aid and the harmful properties of the controls. He suggests a modification of the voucher plan. (Author/JM)

****
* Reproductions supplied by EDRS are the best that can be made *
* from the original document. *
****

ED176408

EA 012 136

A CIE Paper

U.S. DEPARTMENT OF HEALTH, EDUCATION & WELFARE
NATIONAL INSTITUTE OF EDUCATION

THIS DOCUMENT HAS BEEN REPRODUCED EXACTLY AS RECEIVED FROM THE PERSON OR ORGANIZATION ORIGINATING IT. POINTS OF VIEW OR OPINIONS STATED DO NOT NECESSARILY REPRESENT OFFICIAL NATIONAL INSTITUTE OF EDUCATION POSITION OR POLICY.

GOVERNMENT AID TO PRIVATE SCHOOLS: IS IT A TROJAN HORSE?

"PERMISSION TO REPRODUCE THIS MATERIAL HAS BEEN GRANTED BY

W. Johnson

TO THE EDUCATIONAL RESOURCES INFORMATION CENTER (ERIC)."

EDITED BY

RICHARD E. WAGNER

TABLE OF CONTENTS

	PAGE
ABSTRACT	1
FOREWORD	2
THE COST OF GOVERNMENT AID -- Dr. William E. Cage, Wake Forest University	4
THE (SCHOOL) HOUSE THAT JACK BUILT -- Dr. Robert J. Staaf, Law and Economics Center, University of Miami (on leave from VPI and SU)	12
GOVERNMENT SUBSIDIES, GOVERNMENT CONTROLS, AND PRIVATE EDUCATION -- Professor Eugenia F. Toma, Loyola-Marymount Univ.	23
THE CASE FOR ABOLISHING "FREE" EDUCATION -- Dr. E. G. West, Carleton University	31
STATE AID FOR PRIVATE EDUCATION: CURSE OR BLESSING, AND FOR WHOM? -- Dr. Richard E. Wagner, Auburn University	38
AN INCENTIVE PLAN FOR SUBSIDIZING PRIVATE SCHOOLING -- Professor Randall G. Holcombe, Auburn University	47

GOVERNMENT AID TO PRIVATE SCHOOLS: IS IT A TROJAN HORSE?

EDITED BY RICHARD E. WAGNER

ABSTRACT

Five scholars interested in private education and knowledgeable in economic policy and politics respond to the lead essay by William Cage.

Dr. Cage argues that supporters of private schooling are being shortsighted in advocating state aid for private education. State aid, says Cage, would convert private schools into images of the public schools, for it would bring federal controls. These controls would erode the independence of private schools.

Robert J. Staaf focues on the legal and judicial aspects of the process by which state control will come about.

Eugenia F. Toma describes the actions state bureaucracies would take in creating the controls over private schools.

E. G. West goes on to suggest that the promotion of a better competitive balance between schools should be pursued by restoring pricing to the public schools.

Contrary to the preceding authors, Richard Wagner argues that tax deductions and credits are categorically distinct from such policies as vouchers and direct aid to schools, and that deductions and credits can be of great value in strengthening private schooling, through their political impact as well as through their economic impact.

Randall G. Holcombe sees a trade off between the beneficial properties of the aid and the harmful properties of the controls. He suggests a modification of the voucher plan.

Professor Wagner is a member of the faculty in the Department of Economics at Auburn University.

© 1979 by the Center for Independent Education.

Order additional copies for $3 from IHS Publications, Box 2256, Wichita, KS 67201.

FOREWORD

This collection of essays had its inception with an address delivered by Dr. William Cage at a conference in Atlanta in 1978, in which he suggested that supporters of private education were being shortsighted in advocating state aid for private education. Dr. Cage did not dispute the fact that private education was both doing an admirable job of educating its students and that it was subject to increasingly severe financial pressures. He did dispute the proposition that state aid is desirable from the prospective of private schools.

At first glance, it seems state aid would alleviate financial difficulties, while at the same time increase the number of students who are able to gain the benefits from private education. In response to these possibilities, Dr. Cage raises the argument that state aid would convert private schools into images of the public schools. Federal aid would bring with it federal controls, Dr. Cage argues, and these controls would erode the independence of the private schools. Therefore, the acceptance of federal aid would be shortsighted on the part of private schools; better to maintain their independence by refusing federal aid than to barter their independence for tax dollars.

Dr. Cage raises questions of great importance for people interested in private education. Consequently, the Center for Independent Education decided to ask a few scholars who both were interested in private education and were knowledgeable in general matters of economic policy and politics to prepare essays on their assessments of the relation between governmental aid and the vitality of private education.

By design, the essays in this volume do not present a monolithic position. The purpose of this symposium is to present some variety of viewpoint, with the idea being that such a variety will better facilitate the development of clearer thinking about the relation between public policy and the vitality of private education.

The order of the papers in this symposium reflects a logic that was not anticipated when the various authors were approached about writing essays. Following Dr. Cage's essay, Robert J. Staaf and Eugenia F. Toma both accept the argument that state subsidies will result in state control of private education. Staaf focuses on legal and judicial aspects of the process by which state control will come about, while Toma describes the actions of state bureaucracies in creating such control.

E. G. West accepts the proposition that state aid will result in state control of private schooling. He goes on to suggest that the promotion of a better competitive balance between public schools should be pursued by restoring pricing to the public schools.

Contrary to the preceding authors, Richard E. Wagner argues that tax deductions and credits are categorically distinct from such policies as vouchers and direct aid to schools, and that deductions and credits can be of great value in strengthening private schooling, through their political impact as well

as through their economic impact.

Randall G. Holcombe's essay accepts the proposition that state aid will bring about state controls over private education, only he sees a trade off between the beneficial properties of the aid and the harmful properties of the controls. He then goes on to describe a modification of a voucher plan in which the amount of subsidy received by a school would depend on some measured improvement in learning by students. The idea behind this plan is that the acceptance of this objective measure of learning as a basis for distributing funds would be sufficient appeasement for those state interests that want to control private education, while at the same time it would leave a sufficiently flexible framework to accommodate efforts to deliver better education to pupils.

THE COST OF GOVERNMENT AID

by W. E. Cage

My daughter is at an age which makes me appreciate my own parents. A thirteen-year-old will usually bring even the most long-suffering parent to wonder where his folks came up with the patience required to allow him to reach adulthood with relatively few psychological traumata.

A case in point: kids in their early teens have the maddening combination of a desire to wear nice clothes and a pronounced fear of coathangers. For a long time, I responded to these characteristics in my own daughter with a variety of sermons, all with the theme "If you want to wear nice things, you have to take care of them." The family dog listened with more attentiveness than did my child.

Then, a stroke of genius! Any clothes found off of a clotheshanger were not allowed to be worn for a week. This was truly a technological breakthrough in child-raising. Why, I could even write a book and become an expert in child psychology.

Except that I forgot one little thing....My daughter took to that policy of "correction" like a duck to water. She could now wear good clothes once in a while, not have to take care of them, and get by with looking scruffy most of the time (which also seems to be high on priority lists for young teens). I thought I had effectively dealt with the problem by giving her an incentive to do what I wanted. As it turned out, she responded to an incentive--but it sure wasn't the one I expected.

As surely as household "policies" can bring forth contrary results, so too can social policies. The record of our years of "social engineering," of trying to effect changes in our social and economic structure, is dismal at best and often is perverse. I would like to offer another variation of Murphy's Law: whatever government sets out to accomplish, the exact opposite will be achieved. This has been demonstrated time and time again, and we may be close to seeing it happen yet once more.

The issue this time is government aid to private education. It comes in a variety of forms already, and the catalog of grants and subsidies seems destined to enlarge each year. The past decades have seen public aid primarily for colleges and graduate schools. Those institutions are now so heavily dependent upon government funds that there would be little change in their operations if they all appended the words "State University" to their names. And now the aid is beginning to filter down to private secondary and elementary schools. The varieties of aid for this level of our private education system are nowhere near so diverse as for the colleges and universities. Not yet.

The reason for government aid to education--at any level --is that our private educational institutions are a vital part of our whole educational structure. They have strengthened our national educational program and must be preserved. They have fallen on hard times financially and because of their importance, government should step in and

help provide the dollars necessary to keep them operating.

It is the thesis of this essay that government aid to private schools, with the avowed purpose of maintaining those schools' educational contributions, is certain to destroy the very source of the contributions that private schools and colleges have made to our educational program. Government aid for private schools has a cost, and that cost is the vitality of the schools. The private schools will respond to the incentives provided by government aid--but those incentives will not be the ones expected. The result will not be to maintain private educational institutions in their role as a mainstay and leader in our educational system but rather will be the exact opposite. The result will be a private education system that delivers education as effectively as the post office delivers the mail.

The Financial Problem of Private Schools

The financial problem of private schools is, simply, money--and it is a rare headmaster who doesn't worry about it. School enrollment projections almost always predict falling enrollment while at the same time the supplies, teachers, utilities, and buildings are rising in cost. Faced with that double squeeze of diminishing sources of revenue and increasing needs for revenue, it would be easy to become depressed.

But in the face of all that bad news, we should remember that private schools in America have been an unparalleled success. Their competitors--the public schools--offer their "product" at no cost to the consumer, and even then they often can't give it away. Public schools generally have better (i.e., bigger and more costly) facilities, larger support staffs and more degrees per teacher than their private school counterparts. Even with these obvious advantages of public schools, though, private schools regularly enroll about one of every ten school-age children. Private schools usually have significantly lower costs per student, and the end result--by almost any measure--is superior. In the face of overwhelming odds, private schools are doing an overwhelming job. They are an overwhelming success!

Why, then, do these private schools have a financial problem? The money pinch has always been around, of course, but over the past dozen years that pinch has been exacerbated by a combination of developments which singularly impinge on the financial position of private schools.

The first of these developments is inflation. In the past decade the Consumer Price Index has essentially doubled. Now, if all prices and costs increased proportionally, some of the unpleasant aspects of inflation would be mitigated. However, inflation has a much more pronounced effect in those sectors of the economy which have a high percentage of their costs in the form of "current" costs. That is, those sectors which must use a lot of labor, expendable supplies, and utilities in their operations will find the cost of doing business escalating more rapidly than in sectors

which use a lot of land, buildings, and machinery in their operations. The prices of manufactured goods, for example, have tended to increase at a slower rate than have the prices of services--and education is a service. Inflation, then, will raise the costs of private schools faster than the average--and, since those increased costs will have to be reflected in higher charges for tuition and fees, we can expect private school tuition to rise faster than the price level increases. Education in private schools then becomes an increasingly expensive purchase, even in comparison with other goods and services.

The second development which has contributed to the financial plight of private schools is the very small increase in productivity in the economy as a whole. There are several reasons for this low productivity growth, including the tax structure, the redistribution of income through welfare programs, the Social Security program, and economic uncertainty in general, but the end result of low productivity growth is a low rate of growth of real income (income adjusted for inflation). Taking account of the general rise in prices, we have only had about a $50 increase in the take-home income for each worker over the past decade. That's not $50 per year but $50 for the entire decade.

With real income showing barely any increase and the price of private school education increasing faster than prices generally, we could expect that people would begin to substitute cheaper goods in place of private schools for their offspring. This has certainly occurred and would by itself cause concern for private school finances. However, add one more development and you have the makings for a full-fledged financial crisis.

That final development is the slowing down of the birth rate. With more couples postponing or abstaining from having children, there has been a relative shrinking of the pool of potential students from which private schools may draw.

The financial problem, then, is not one of the private schools' own doing--but it may prove to be their undoing. With above-average increases in costs, below-average increases in the number of potential customers, and little increase in take-home real income per worker, private schools are finding it difficult to find enough dollars to cover the bills. The obvious answer--obvious, at least, to many--is to get government help. Tax dollars, after all, are fairly reliable, especially for things like the education of young children. But before we look at the ways in which government aid could be given to public schools, let us consider what it is that makes private schools such a vital part of our educational system.

The Importance of Private Schools

Private schools are important to our educational system because they have been a success. That is, the reasons that have allowed private schools to compete successfully with the no-cost schools are the same reasons why the private schools have played such a vital role in the

development of our educational system.

The basic reason behind the success of private schools is their pluralistic approach to education. Private schools have not been constrained by a central curriculum or by a single set of methodological principles. They have therefore been able to establish curricula and employ methods suited to their particular students. They have also been able to experiment, adopting the experimental methods and subjects that show promise and rejecting those that don't work.

As a result, the curricula in private schools are generally notable for a higher level of instruction in basic subjects. In addition, the subjects usually offered as electives tend to be less frivolous than many offered in the public schools. And, when all private schools are considered, there is likely to be a wider variety of subjects taught, each one tailored to local needs and cultural influences.

Similarly, the methods used in private schools are more effective because the approach is pluralistic. Each private school is independent and the ways in which courses are taught can also be tailored to the needs and attitudes of the students without having to conform to "system rules and guidelines."

Because the pluralistic approach found in private schools does result in a generally better curriculum and better teaching methods, parents have been attracted to using private schools for the education of their children. The fact that about 10 percent of school children are enrolled in private schools alone would make those schools important in our educational system. But they are important for an even more fundamental reason. The pluralistic approach of private schools both encourages educational curriculum developments and methodological improvements and provides a check on what the public schools are doing.

This last point should not be minimized in importance. While we usually look for "improvements" as a sign of progress, it is too easy to equate "improvement" with "change." If the private schools were not free to innovate, experiment, and invent, we would surely experience a much slower rate of improvement in education. But if they were not around to test, verify or reject the new tacks taken by the public schools, there would be absolutely nothing to stand in the way of an educational fad destroying the educational program in our country.

Private schools, then, are important for the same reason they have been successful; i.e., their pluralistic approach to education. That pluralism is both a source of educational improvements and a check on educational dis-improvements. Without our private schools, we may have something worse than a stagnant educational system. We might well have a system going hell-bent in the wrong direction.

A "Solution" to the Financial Problem

It is but a short step in logic to conclude that, if private schools are important to our whole educational system, and those schools are in

a financial bind through no fault of their own, the government should step in to assist. That short step, though, is not necessarily logical. Not all problems have "happy" solutions, nor is government aid a guaranteed solution to the problem of keeping private schools afloat.

Nonetheless, it seems to have become part of "the American way" that, when financial difficulties beset us, we should trot off to Washington for help (witness Lockheed, the trigger prices for steel, and the support prices for the sugar industry). In fact, it seems that real financial difficulties need not even be present--it is sufficient for us simply to be worried about them in order to receive government assistance.

With private schools in a financial pinch now, we find them following the example of numerous other businesses. They have lined up at the public trough, waiting for some of the government's largesse to spill out in their direction. Let us take a look at the main types of aid being suggested for private schools, and especially let us consider what effect those various types of assistance would have on the education offered by the private schools.

While there are many different forms in which government aid could be offered to private schools, it seems useful to categorize the aid programs on the basis of who receives the assistance. Specifically, virtually all forms of government aid will either go to the suppliers of the education (the schools), or to the consumers of the education (the students or their parents).

Financial support given directly to the suppliers include input subsidies such as free or low-cost texts and teacher salary supplements; project grants such as science program development funds or computer education; or even unrestricted grants, made perhaps on the basis of X dollars per student. Aid to the users would include vouchers, tax credits, and need scholarships to offset the cash outlay for tuition. Most of the forms of aid currently under consideration are of this latter type. The Roth-Packwood-Moynihan proposals are for tax credits while the Carter administration is supporting scholarships. In both types of proposals the aid is aimed at the users of the schools rather than the suppliers.

The effect that either of the two basic types of aid has on private school education can be derived from this basic principle: MORE WILL BE SUPPLIED OF WHATEVER THE AID PAYS FOR. That is, if the government aid subsidizes inputs, schools will have more texts, filmstrips, and electronic dust gatherers. Project grants will bring forth more field trips, computers, curriculum innovations, and guidance counsellors (and, with more counsellors, we can expect to see more disturbed children!). The use of vouchers, tax credits, and scholarships--all of which "pay" for students--will certainly bring forth more students and, most likely, higher tuition charges.

Whatever the form of aid, we can also expect that there will be more total expenditures for education. If the schools themselves receive the aid, they will tend to spend

less of their own funds for the subsidized items but there will not be a dollar-for-dollar offset. If students and their parents receive the aid, each family may spend a bit less but there will be more families attracted to the private schools. We can be sure that government aid to private schools will result in an increase in total educational expenditures because that aid is simply taken from the average taxpayer and given to parents, students, or schools--and the average parent will spend more for education than the average taxpayer, who is not necessarily a parent. So, with total educational expenditures increasing as a result of government aid to private schools, the teachers and administrators in the public school system are in a less vulnerable position than they might imagine. Some of them may have to switch from public to private schools, but educators generally will have more money.

The second general effect of any type of aid is that there will be more students attending private schools. The business officers of the private schools may view this as an unmixed blessing, but the teachers will soon find that more students also means lower quality students. Some of those that were kept out before aid was available now will apply because the private school education is cheaper. These new applicants will not be of the same caliber as the students already enrolled: those who enrolled before aid was available are more likely to be those who would benefit most from the better educational environment.

The particular form that government aid takes, then, will effect change within the private schools, and aid in any form will have its effect on the entire private school system. The greatest effect of government aid remains to be considered. Whatever form government aid come in, to whom it is directed, and how it is financed, are essentially irrelevant considerations in the long run because --finally--government aid will destroy the private school system.

The Cost of Government Aid

Government assistance will no doubt increase the dollar income of private schools. And, in doing so, that aid will create the changes and distortions described in the preceding section. But consider again why private schools are important.

The importance of private schools lies in their pluralistic approach to education. They develop better curricula and more effective methods, and provide a check on public school educational experiments, because they are a multitude of institutions and minds, all looking at problems from different perspectives.

But looking only at curricula and methods can be misleading. Private schools can wind up in blind educational alleys in their experimenting just as surely as public schools can. What is it about private schools that insures against all of them doing the wrong thing? It is because private schools have an incentive to find a truly better education. They are not answerable to a school board but rather to their students and parents. If the education

offered by the private schools is mediocre (or less!), those schools will lose students and money. In contrast, the public schools which do the worst job seem to gain revenue! It is exactly the reliance on tuition and donations that has made private schools superior to their government-supported counterparts. It is the fact that private schools must rely on the marketplace for support that insures against their going too far in the wrong direction. They have an incentive to do the right thing and to try to improve upon it.

When government enters the picture, money in hand, that incentive changes drastically. Schools would much rather serve the government, with its reliable funding, than cater to the eccentricities and whims of the students and their parents. When the Carter administration proposed grants based on need rather than tax credits and tuition vouchers, 80 percent of the colleges and universities came out in favor of the needs grants! This support had little to do with a sincere concern for the poor and disadvantaged. Rather, the colleges and universities favored this type of program because they would administer it! That is, the money would be available through the college so the student would have to meet the college's requirements instead of the college having to meet the student's requirements! Ultimately, the private schools at all levels could be expected to push for aid granted directly to the schools themselves. At that point, the most important factor in the success story of private schools is lost. With direct aid to schools, the incentive to satisfy the students and their parents is considerably reduced.

Would tuition vouchers or tax credits avoid this problem? The answer can be found in the reaction of the Internal Revenue Service to the first claim for a tax credit for tuition paid to the Podunk School of Elementary Education and Cafeteria Management. The IRS would undoubtedly reject the credit on the grounds that the school wasn't really a school. The government would immediately be faced with the necessity of establishing standards for "real" schools, and "real" curricula, "real" teachers, students, texts, and perhaps for gyms, showers, and parking lots! Any school that wanted to participate in the government's largesse would have to conform to those standards--a most powerful incentive for the private schools to educate in a manner approved by the government instead of by the student and his parents. This incentive to satisfy the students is again considerably, and perhaps totally, reduced.

In whatever form government aid comes to private schools, the effect will be the same. It is the incentives that the private schools have had that have been the root cause of their success and importance. Government aid, no matter how well intentioned, will change those incentives. The private schools will still respond to the incentives they face--but they, figuratively speaking, will dress scruffily rather than hang up their clothes.

Government financing, in a very real sense, destroyed the public schools of our country. As soon as they had their place in line at the public trough, they lost the

incentive to provide a good education for their students. To this point in time, private schools have been able to compete effectively with the public schools precisely because the public schools lacked the incentive to meet their customers' needs and desires. When the private schools find their place in line at the public trough, their competitive edge will disappear. And the destruction of a once viable and dynamic private school system will be complete. The cost of government aid is the vitality of the private schools.

THE [SCHOOL] HOUSE THAT JACK BUILT
The Law and Economics of Public Subsidies to Private Education.

Robert J. Staaf*

INTRODUCTION

There are at least three possible scenarios that would result from a general scheme of Federal subsidies to private education. First, the public system could be absorbed into the private system. Second, the private system could be absorbed into the public system. Third, some public-private mix at the status quo or some other ratio. Because a significant number of parents choose private education (albeit a relatively small percentage compared to public enrollment) at a considerable cost to themselves, I assume that private education is both preferable and distinguishable from their alternative choice of public education.

I confine my remarks largely to the effects federal subsidies would have on the class of parents who currently choose private education. Given this perspective, a general scheme of subsidies that absorbed the public system into the private system would benefit parents who currently choose private schools. At the minimum, benefits would include an income transfer in the form of a voucher, tax credit, tax deduction, etc., that these parents do not currently receive. Moreover, the advantages of increased competition through an enlarged market would be an added benefit beyond the income transfer.

The private system encapsulating the public system through a general scheme of subsidies is the view often presented by economists, most notably in the form of a voucher system as advocated by Nobel Prize Laureate Milton Friedman. I shall discuss this view in Section 1.

The second scenario--the public system encapsulating the private system--would not benefit parents who currently choose private education by definition. If these parents are currently willing to pay a premium for private education (i.e., forego their public subsidy, then an elimination of the private alternative for a given level of both public-private expenditures will make them worse off. I shall argue in Section II that the receipt of a subsidy in the form of a voucher or tax advantage has the potential for diminishing the right to private contract by increasing the rights of a collective in terms of defining the nature of what education will be provided. Legally, a general subsidy scheme authorizes the federal government to impose conditions on recipients receiving aid. A potential exists, constitutionally sanctioned, that could turn a scheme of federal aid into a system similar to public provision by placing severe restrictions on freedom of contract.

Section III briefly discusses the entanglement issue, standards, and a recently proposed tax ruling. Perhaps the most realistic of the scenarios outlined, is the middle ground between section I and II. Under this scenario, it

*Law and Economics Center, University of Miami (on leave from VPI & SU)

is difficult to evaluate whether a general scheme of subsidies is beneficial to parents currently choosing private education. Considerable uncertainty exists between these two alternative extremes. However, the main theme of this essay is that the clear line that economists often draw, separating public finance from public provision, becomes blurred when viewed in a law and economics setting. Substantive rights of parents change with the introduction of government intervention.

I. PUBLIC TURNED PRIVATE

Anyone who has read Milton Friedman's "The Role of Government in Education" in Capitalism and Friedman must be impressed with the logic and symmetry of a voucher system.[1] Friedman assumes that there is a market failure in education because there are neighborhood effects that benefit society as a whole. Parents choose education based on private benefits only and do not consider in their choice calculus the total social benefits that include both private benefits and neighborhood or spillover benefits. Therefore, by investing too little, a free market "fails" to provide a socially optimum amount of education. This under-provision argument underlies all expenditure and tax subsidy schemes whether they be vouchers, tax credits, or tax deductions.

This neighborhood argument can be interpreted in two ways. The interpretation presented first is based on a quantitative dimension where private demands exceed the equal provision of publicly provided education. That is, marginal quantity adjustments to publicly provided education are costly. The second interpretation is based on a qualitative dimension such that parents will not choose the proper type of education given free choice. Under this interpretation "public standards" are required. Both interpretations are based on a divergence between private benefits and social benefits. It is this divergence that calls forth the need for government intervention. One form of intervention is to have government provide education, as they do today, to avoid market failure. But Friedman's argument for a voucher system is based on a distinction between public finance and public provision.

Under the present system, public monies for education are given directly to local school districts administrators. The amounts are determined by various state formulae and local tax effort. Local school administrators choose how to allocate these funds subject to various restrictions imposed by local and state legislative bodies.

The voucher system, on the other hand, would channel local and state funds directly to parents rather than school administrators. The parent(s) with a voucher is permitted to escape the artificial school district boundary which he or she happens to reside in and is given a new freedom to choose any school within practical limits. The voucher is limited to educational purposes only and it is subject

[1] Milton Friedman, Capitalism and Freedom, the University of Chicago Press, (Chicago, 1962)

to restrictions that it can be spent only on schools that meet certain required standards.

Ignoring the definition of required standards for the moment, the voucher in this setting is viewed as permitting parental sovereignty that would replace administrator and teacher sovereignty of local monopoly school districts. The new found freedom of the voucher would eliminate the monopoly power of public school administrators and teachers, a power derived from the establishment of artificial school district lines.

This competitive vision associated with a voucher system is primarily focused on the supply side. Local school districts are inherently barriers to entry. Under the existing public systems, parental choice is confined to voting, PTA meetings, and the location of one's residence. The first two choices do nothing to eliminate the monopoly of the school administrators and teachers. Parents are captive consumers. Moreover, as the school district increases in size, the monopoly power of school teachers and administrators increase and individual parental influence through voting or PTA meetings necessarily diminishes. Parental influence by voting with one's feet to a new district has some influence in constraining monopoly power because a parent can "choose" among districts by choosing where to live. But the massive consolidation movement in the past two decades has made the cost of this choice prohibitive in many areas.[2] Needless to say, achieving competition through migration and immigration is a costly form of exercising freedom of choice.

The monopoly attendant with school districts means higher prices/taxes charged to parents because of either a misallocation of resources or income transfers to administrators or teachers in the form of monopoly rents. The voucher by introducing competition will improve resource allocation and eliminate monopoly rents.

The quantitative dimension of the neighborhood argument is as follows. Parents are assumed to have a demand for education because of neighborhood effects (other children) and a demand for their own child's education. Because public education is usually provided equally to all children, some parents may demand more for their own children than that which is publicly provided equally to all. However, individual marginal adjustments to public education are prohibitively costly because of the high monopoly price and the cost of trying to influence a collective demand for education. Therefore, if some parents' demand for education is high, they will choose private education because they can quantity adjust. They are also presumed to have some benefit from the inefficient higher priced public education because of neighborhood effects.

It can be argued that the voucher system eliminates the

[2]See my work on "The Public School in Transition: Consolidation and Parental Choice" in Budgets and Bureaucrats, ed. Thomas Borcherding, Duke University Press, N.S., 1977

bifurcated choice of social and private demands. The total demand for education can now be placed on a continuum not requiring two systems. The public, through voting, would determine the amount of education necessary for the social (neighborhood effects) demand. But now the voucher can also be used for one's own child and supplemented to achieve the desired level of private education. Thus the voucher serves a twofold purpose in providing for social education based on neighbor effects as well as private education based on private demands for one's own children. The voucher permits an overlap of social and private demands rather than a bifurcated choice calling for collective choice in terms of neighborhood effects and a public system and a private choice if private demands exceed the collectively determined quantity. Moreover, the voucher will introduce competition in the area of social demand and thus decrease the price for achieving neighborhood effects.

It is clear under these assumptions, parents who currently choose private education would benefit from a voucher system. The benefit is threefold. First, the voucher decreases the price for social benefits by way of competition. Two, because the voucher can be used for one's own child, there is an income redistribution in favor of parents (by the amount of the voucher) who currently choose private education through increased competition by an expanded market.

A similar argument can be made for tax credits or deductions. The government simply gives the voucher "right" in the form of negative taxation instead of positive expenditures. A tax scheme, of course, may have different distributive effects that permit middle and higher income groups a greater advantage (e.g., larger voucher) than low income groups.

The above argument is in a sense a "public failure" of education. The failure is twofold. First, a system of school districts is inherently monopolistic. Second, the equality of education publicly provided makes marginal adjustments very costly. The voucher is assumed to eliminate these defects and at the same time insure there will be no underprovision.

The qualitative dimension of neighborhood effects is a quite different argument. Only certain "types" of education are assumed to confer neighborhood effects. If parental choice is unrestrained in their use of the voucher, it is argued that they might choose the wrong "type" of education. To insure that this does not happen, standards are required. Once the public had defined a standard unit of education, then the voucher system will guarantee an efficient outcome.

Parents who currently choose the private alternative would undoubtedly be surprised by the above analysis. Their objection to the public system is not likely to be directly aimed at the "high price" of some "standard" unit of education. Rather, many might argue that the education publicly offered is not the education they demand. That is, the public system is a failure. For some parents, this may mean that a sufficient quantity of education is not being publicly provided given

their private demands. However, for others, what is publicly provided and what is privately available is like comparing rotten apples and fresh oranges. This would seem especially true for those who choose parochial schools.

In essence, this means that there is no such thing as a "standard unit of education" for these parents. By analogy it seems silly to talk of a "standard unit" for literary works, movies, theater, as well as innumerable so-called "goods" provided in a market. To collapse a multifaceted item such as education into a single dimension is to destroy the very argument for a free market.

I shall elaborate on standards in the last section. But to repeat, the neighborhood argument is what justifies government intervention in the first instance. The neighborhood argument implicitly accepts some "standard unit" where others in a collective can choose for the individual. If the neighborhood argument is dropped, a definition of some standard unit of education becomes meaningless. Rather, the question is one of whose preferences should count: an individual or a collective that defines some artificially homogenized standard of education.

II. PRIVATE TURNED PUBLIC

> "Congress is authorized to defend the nation. Ships are necessary for defense; copper is necessary for ships; mines necessary for copper; a company necessary to work the mines; and who can doubt this reasoning who has ever played at 'This is the House That Jack Build?'"[3]

The above quotation fro[illegible] Thomas Jefferson was written in response to an 1800 proposal for federal incorporation of a copper mining company. Starting with a premise of neighborhood effects one can also develop a sylogism that leads to "This is the [School] House That Jack Built."

There is no mention in the Constitution of education falling within the enumerated powers of the federal government.[4] Assuming that public subsidies to private education would come from federal revenues, are there any constitutional constraints on

[3]Quoted in 1 Chas. Warren, The Supreme Court in United States History 501 (rev. ed. 1926). Also in David E. Engdahl, Constitutional Power: Federal and State, West Nutshell Series, West Publishing Co. (St. Paul: 1974) p. 17.

[4]Because there is no enumerated power, education is thought to fall under Amendment 1X (rights retained by the people) or Amendment X (rights reserved to the States or the people). Justice Stone in U.S. v. Darby. 312 U.S. 100 (1941) in upholding the Fair Labor Standards Act of 1938 said that the power of Congress over interstate commerce can neither be enlarged or diminished by the exercise or non-exercise or state power. The Tenth Amendment was reduced to merely a "truism." See (Cont.)

government that would inhibit its actions to modify or condition the voucher or tax subsidy? That is, what is to prevent the federal government from turning the public financing scheme into a federal provision scheme? Or alternatively, is it likely that a voucher or tax credit is likely to be purely a fiscal accounting transfer scheme without substantive "rights" provisions attached? Note that the typical economic discussion is based on a sort of pure fiscal accounting transfer scheme and the separate question of "standards" is attached on as an incidental neighborhood effect that justifies the overall scheme.

The answer to whether there are constitutional restrictions on Congress that would prohibit it from adding substantive conditions in utilizing the voucher is an unequivocal--No![5] The courts would not need to go through contortions based on the necessary and proper clause that is associated with the above quotation from Jefferson. It is well established that Congress can condition a grant, contract, license, or exemption from a tax, upon the recipients' compliance or agreement to comply with rules or stipulations which the enumerated powers otherwise do not empower the federal government to impose.[6]

The federal government has plenary power in this area. Federal taxes are imposed to deter transactions in firearms, drugs, and gambling. Farmers are required to leave acreage out of production as a condition of receiving federal grants. States are required to observe federal welfare rules and school desegregation guidelines to qualify for grants in aid. Contractors agree to abide by federal regulation of their employment practices or business operation to be eligible for defense or government contracts. Municipalities and states must abide by conditions and restrictions on the

[4](Cont.) Engdahl, Constitutional Power, Chaps. 1-3, for a general discussion of the necessary and proper clause. (Article I, § 8).

[5]There has been some limitation in terms of interfering with state sovereignty. Plenary power resides with Congress under the Commerce Clause of Act. 1. Justice Rehnquist in National League of Cities v. Usery, 426 U.S. 833 (1976) held that where state functions are essential to its separate and independent existence, the Congress may not abrogate the states' otherwise plenary authority over these functions. (Justice Brennan, White, Marshall, and Stevens dissenting). This case held that the 1974 amendment to

[5](Cont.) the Fair Labor Standards Act could not mandate minimum employees. This case attempts to revitalize Federalism. However, there is little doubt that if Congress offered a conditional grant to achieve the same effect as a minimum wage, the statute would be upheld as constitutional.

[6]See King v. Smith, 392 U.S. 309 (1968); Oklahoma v. United States Civil Service Comm'n, 330 U.S. 127 (1947); United States v. Darby, 312 U.S. 100 (1941).

utilization of revenue sharing funds. Veterans receive educational benefits conditioned on choosing an "accredited" school. The list goes on.

A fundamental change occurs in social relationships in moving from private education privately financed to education publicly financed or subsidized. Legally and behaviorly the private contracting arrangements of private education are not likely to be maintained even in a so-called fiscal accounting-transfer scheme. It is a mistake to view a voucher or tax scheme as simply a conduit of money flows without affecting substantive rights of individuals.[7] Recognition of these changes on substantive rights seems to underly the cases on the establishment clause of the First Amendment with entanglement between the state and religion.[8]

Currently, private education is a matter of contract between parent and school. Such transactions are based on conventional reciprocal inducement where parents have certain rights to the performance of certain duties by the school. The performance of these duties create rights in the school to be paid. These contracts may consist of a variety of rights and duties as defined by the participants and which are mutually agreeable. Each looks to the other in terms of defining rights and duties. It is this reciprocal relationship defined by them, absent third parties' influences, that is the essence of contract. Legal remedies lie for a breach. But perhaps more importantly, the right of the parent to turn to alternative schools or the schools to turn to alternative parents in the event of unsatisfactory performance is what binds the parties to a mutually satisfactory exchange or contract. It is the existence of alternatives that presents the opportunity costs of each in their relationship with one another.

Now consider a voucher system. As suggested previously the mere fact of public financing brings forth some market or contract failure argument. Monies that were previously spent by parents for private education under contract are now channeled to the government and returned to individuals in the form of vouchers. Or money spent on educational contracts receive a tax credit or deduction at the tax settlement period. It is difficult to maintain that this round-about money flow can be justified as a simple accounting transfer either theoretically or in light of current schemes such as revenue sharing. An additional legal entity, the government, has entered the voucher transaction which prior to the voucher was a bilateral contract. The question of standards imposed upon purely private transactions will be discussed shortly.

[7] I am indebted to E. G. West who recognized several years ago the artificiality of public finance and public provision which is developed in his more recent work. While he sets the analysis in terms of public choice and/or bureaucracy, my focus is to examine the legal limits, assuming the worse from democracy.

[8] See E. G. West, Non-Public School Aid, (Lexington Books, D. C. Heath: Mass., 1976)

There is now a tri-party agreement where the government has certain rights over the voucher transaction as discussed previously. Vouchers or tax credits or tax deductions can be conditioned on the recipient satisfying certain duties as defined collectively. The right of private contract is merged with collective rights and duties. Collective principles like agency or fair representation replace rights and duties defined by the contract. Schools must now look to both government and parents, depending on the conditions imposed, as the ultimate demanders of its services. Who can deny that there is not a change in the social, as well as legal, relationship of the food stamp recipient, the grocer, and other customers when the voucher is presented. In this respect, the tax credit or deduction may be preferred, in a social sense, but the fundamental change in legal relationship remains.

As another example, no one using their wildest imagination would have envisioned back in the sixties the influence of grants by the federal government as it exists today at private universities.[9] All of this suggests that a pure voucher system as a fiscal transfer is not likely and that changes in substantive rights will make the private educational system similar to the public educational system.

A strong counter argument can be made to the above reasoning as follows. State and to some extent national standards are imposed on private schools in the absence of any government subsidy. Therefore, why should parents who pay for private education make sacrifices when standards are imposed in any event.

First of all, a voucher system gives the government plenary power to impose conditions on the recipient of the grant. The theory behind this plenary power is that the state or individual always has a right to refuse the grant and therefore there is no unconstitutional exercise of government coercive power. But, the reach of the government in the absence of conditional grants is more limited and must be justified on some other basis such as the necessary and proper clause.[10]

In addition, the plenary power that is associated with conditional grants may be exercised in an attenuated fashion. It is possible that a private school with ninety-nine parents paying the full cost out of their pockets may be subject to the plenary powers of the government by the school accepting one parent with a voucher. A tax credit or tax deduction used by one parent may be more attenuated, as to raise doubts, but it is conceivable even here that

[9]See John Charles Daly, Moderator, Government and Academia: The Uneasy Bond, A.E.I. Forums, American Enterprise. Justitute for Public Policy Research (Washington, D.C., 1978)

[10]See William B. Ball, Litigation in Education: In Defense of Independent Education, (Center for Independent Education: Wichita, Kansas, 1977) for an excellent survey of litigation dealing with private education.

there is enough of a nexus to establish federal control.[11]

Because a voucher system would be a conditional grant, one can argue that a voucher is simply another option that can be rejected if it does not meet parents' expectations. Conditional grants currently going to private universities may also be rejected to escape the constraints imposed by the federal government. This option feature represents a more serious argument to oppose a voucher scheme. It is difficult to argue against a scheme that gives individuals more choice without taking an elitist position.

Yet, it seems to me, that some private universities, as well as some state universities, regret ever accepting federal funds but are currently unable to live without them. Such an argument does not fit within the standard economic framework. In any event, the choice of accepting federal aid seems to me to be based either on what seems expedient at the time where all costs and benefits, both present and future, are assumed to be known or a choice based on a commitment or principle that government should be limited in the area of education because of the potential for unknown and unforeseen restrictions that might be imposed.

[11]Again, while the commerce clause cases are not exactly on point with conditional grants, a case dealing with marking provisions of the Agricultural Adjustment Act of 1938 provides an insight into how far the courts will go in extending the reach of congressional legislation. In Wickard v. Filburn, 317 U.S. 111 (1942) a small farmer in Ohio was fined for exceeding the acreage allotment under the Act of 1938. The wheat grown on 23 acres exceeded his allotment of 11 acres. Even though the wheat grown in the past was used primarily, for home and animal consumption, it was held to have an economic effect of interstate commerce. The court reasoned that even though the farmer's own contribution to the demand for wheat may be trivial by itself, it is not enough to remove him from the scope of federal regulation because his contribution taken together with that of many others similarly situated is far from trivial.

III. CONCLUDING REMARKS

I have presented two extreme views of the possible consequences of a voucher system or tax credit or tax deduction. No doubt any such scheme will have to overcome the legal barrier of religious entanglement. I suggest that the legal and economic research on the entanglement issue be reexamined not in terms of the separation of church and state, but whether it is possible indeed to have a "private" educational system with some form of public subsidies. Entanglement means that individual rights cannot be separated from so-called state rights. Such an entanglement has the potential of state rights usurping or blurring

any notion of individual rights.[12]

I started off with an economic view of the voucher system. The issue of "standards" in that section was not really addressed and is often treated as an appendage. The pure fiscal voucher system unfettered by standards may be thought to create a sort of anarchy in education if competition were unrestrained. Educational firms would cater to the unsophisticated whims and fads of parents or these firms may, in the Galbraithian tradition, create these demands. This frequent criticism of the market suggests that there will be no uniformity or no standards. This criticism is often used to justify state standards on private education.

At one level this criticism of an anarchial market seems patently absurd.[13] There are numerous items in the market that are "standardized" in the absence of regulation. Tires on automobiles are always round and not square. Steering wheels in automobiles are always on the left hand side (in the U.S.). While some of the items that are standardized may be subject to regulation, these regulations are superfluous. The reason that tires are round is that the automobile only has utility if the wheels are round. That is, in a technological sense, there is an efficient way to to construct things that lead to some standards being revealed in the market without collective constraints.

A similar argument can be made for education. It is difficult to imagine any educational firm supplying education without some "standard set" of courses concerned with the three R's. It is also difficult to imagine even the most unsophisticated parent (however defined) not demanding the three R's. The shift back to the basics in public schools has largely been due to taxpayer response and, of course, to the dramatic drop in performance. Is it possible to explain the public school drift away from the basics because there is no competition?

In the market, performance standards would "evolve" rather than be arbitrarily determined by some innovative educator who has little to lose if the experiment fails. I am not saying that all education can be defined in terms of standards. But, wherever a student's particular interest lies--in the natural or social sciences or the humanities or business--a necessary prerequisite is a basic understanding of communication. Once the basic skills are acquired, and it is possible there are innumerable techniques to acquire the basics depending on individual circumstances, it is difficult to argue against freedom of ideas. Competition of ideas is incompatible with a set of standards. This line of reasoning suggests a minimal or no role for government intervention other than the redistribution of income.

Lastly, I have not distinguished a voucher system from a tax credit or a tax exemption. A tax scheme would seem

[12] See E. G. West, "Perils of Public Education," Freeman, Nov., 1977.

[13] I benefited from discussions with Richard E. Wagner on this point.

to involve less governmental influence because of the absence of a circular flow of funds. However, the Internal Revenue Service has proposed a regulation that would automatically presume that schools, including church-operated schools, are racially discriminatory.[14] That is, private schools will have the burden of proving that they are not discriminatory in order to maintain eligibility for tax exempt status. The proposed regulation extends the reach of government to new depths. It may well be that there is no escape from government intervention. But if a system of tax credits or deductions were presently in existence, a further argument could be advanced for government control based on public interest. At the very minimum, a rejection of federal aid might stave off, at least for a period, the impending federal control.

In summary, if parents who currently send their children to private schools want to preserve their remaining autonomy and counter arguments like the "[School] House That Jack Built," an environment that rests on private contract (not an entanglement with public vouchers or tax subsidies) has to be maintained. The true cost of a general scheme of federal subsidies to education is not susceptible to rational analysis but is more likely to result in the cost of unknown and unforeseen alternatives that might otherwise have been if competition of ideas were not regulated. In this spirit, it is my hope that this essay will not be interpreted as a policy analysis to reject or accept federal aid. Rather, my intention is to further the competition of ideas.

[14] "Proposed Revenue Procedure on Private Tax-Exempt Schools [4830-01]. Federal Register, August 22, 1978. See Gary North, "The I.R.S. Attack on the Independent Schools," Remnant Review, Vol. IV, No. 18, Sept. 15, 1978.

GOVERNMENT SUBSIDIES, GOVERNMENT CONTROLS, AND PRIVATE EDUCATION

Eugenia F. Toma
Loyola-Marymount University

I. INTRODUCTION

Private schooling has been an essential ingredient of the American process since the landing of the Pilgrims at Plymouth Rock. Until the last half of the 19th Century when public schools began to expand in size and role, private schooling constituted the predominant form of U.S. education. Although increasing government expenditures have resulted in a relatively large growth of the public schools in recent years, this does not undermine the importance of private education as a vital alternative form of schooling in our society.

A fundamental reason for the continued existence of private schools in the U.S. at a time when people face the option of attending a "free" public school lies in the diversity offered by the private schools. As public schools have grown increasingly uniform in all respects throughout local school districts, states, and to some extent, across the nation, private education provides families with some choice over the type of education received. Whether it be emphasis on the 3 R's or on expressing inner feelings through any variety of ways such as painting purple cows, the private schools remain better equipped to satisfy diverse individual preferences. This ability results largely because private schools have retained some degree of freedom from the numerous rules and regulations of public schools.

While the private schools offer the alternatives so necessary for a society premised on individual choice, many persons now fear for their continued existence. At least two major problems plague the private schools. The first is one which has perplexed private educators since the widespread growth of public schooling. All taxpayers contribute to the financing of the public schools. Not unlike other governmentally-funded goods, we must pay for public education whether or not we consume the good. Many argue, therefore, that it is only the wealthy of our society who are able to pay for education through taxes and at the same time, consume private education directly through tuition fees. Under these constraints, the option of private schooling is one facing only a limited portion of society.

Secondly, changing demographics in the U.S. threaten not only private schools but public school enrollments as well. Economic factors, and changing attitudes and values, have resulted in declining birth rates throughout the country. Both public and private institutions are experiencing declining enrollments at the primary, secondary, and university levels, with population estimates indicating that the declines will continue into the '80s. Some private educators contend that they are unable to compete effectively with public schools for the dwindling enrollments. While state aid to the school districts depends only partially on daily attendance or enrollment,

private schools are almost wholly dependent on the tuition payments of their students.

As a means of combatting these problems, many persons feel the financing role of the federal government should be altered with respect to private education. With government subsidies to private education, more families will be able to choose this alternative and the schools, therefore, will not be forced to close.

Before analyzing specifically the effects of government subsidies on private education, let us examine the incentive to seek government subsidies from a general prospective. Behaving in a rational manner, consumers strive to purchase goods at the least possible price, given everything else constant. One means of reducing the price confronting an individual for any good or service involves passing the costs of provision onto others. When government finances the provision of a good, the cost can be spread over all taxpayers regardless of whether or not they are beneficiaries. This alone can reduce the price to the individual consuming the publicly-provided good. Secondly, taxation is a more indirect means of payment than the direct payments of the private market, thus further reducing the perceived price of the good.[1]

It is not surprising, therefore, that groups concerned about private education would join the ranks of government fund-seekers. To assume, however, that a reduced cost to those consuming private education would be the single and final effect of government subsidization would be misleading. The remainder of this essay analyzes the expected consequences of public subsidies to private education. We shall examine the effects within the context of various types of subsidies to determine whether the outcome will vary depending on the manner in which the subsidy is provided.

II. PRICE AND INCENTIVE CHANGES

For purposes of simplification, we shall separate subsidies into two basic groups--those which flow directly to the schools, and those providing financial assistance to the families, who, in turn, give the subsidy to the school of their choice in the form of tuition payments. The first category includes direct grants and other similar transfer payments to schools, while the second refers to assistance in the form of tuition tax credits, tax deductions, and vouchers. In all cases, we shall assume the amount of government assistance is the same regardless of its form.

Traditional economic theory suggests that subsidies to producers versus those to the consumers are likely to yield different results. While subsidies to the producer decrease the relative price of the good facing the consumer, it may be a less effective means of increasing consumption than a subsidy to the

[1] James M. Buchanan, Public Finance in Democratic Process (Chapel Hill, N.C.: University of North Carolina Press, 1967).

consumer, such as the voucher. Consider, for example, an individual who places little value on education. Decreasing the relative price of education via subsidies to schools will have an insignificant effect on his consumption of a good which he cares little for. If, on the other hand, he receives income which he can use only for the purpose of consuming education, he has the opportunity to increase his consumption of education at the expense of no other good. Given these circumstances, therefore, an individual's increase in consumption will be greater under the latter as opposed to the former type of subsidy. Although this argument is commonly made for education in general, it is equally applicable to private education.

Subsidies to families as opposed to those to schools also have been supported by economists and educators on the basis of their incentive effects. The father of classical economics, Adam Smith, warned us in the Wealth of Nations of the dangers in "public endowments" to schools. "In every profession, the exertion of the greater part of those who exercise it is always in proportion to the necessity they are under of making that exertion--the endowments of schools and colleges have necessarily diminished more or less the necessity of application in the teachers."[2]

Smith's concern lay in the destruction of incentives which induce institutions to perform to their maximum potential. In the absence of a direct link between school performance and student attendance via such means as tuition fees, the teachers, staffs, and administrators lack the motivation necessary to satisfy students and parents. If, however, teachers' salaries and the revenues received by the schools depend entirely or almost entirely on the students enrolling in their schools, the institutions must provide the "best" education possible. Many suggest today that the complete public financing and the compulsory attendance laws requiring students to attend an assigned school are two factors which have led to the demise of the incentive mechanism in public schools. In any event, many persons agree with Adam Smith and advocate subsidizing individuals rather than schools in order to avoid quality deterioration. Both from quality effects and effects on consumption of education, traditional theory suggests that individual subsidies yield the more desirable results. In the next section, we shall look at subsidy effects from an entirely different, and often omitted, perspective.

III. SUBSIDIES AND CONTROLS

Thus far we have briefly outlined the common arguments for subsidies to private education and have given the orthodox economic arguments for voucher-type subsidies as opposed to direct subsidies to schools. The remainder of this paper examines a third consequence of public subsidies--one which frequently has been overlooked in the

[2] Adam Smith, Wealth of Nations, Vol. III (New York: American Home Library Company, 1902), pp. 136-137.

call for subsidies. We shall discuss the likelihood of rules, regulations, and a variety of public controls over private school activities as an accompaniment to subsidies. After we consider the emergence of public controls in a general manner, we also shall discuss the controls in the context of different forms of subsidization.

To assess the effects of subsidies in terms of government controls in general, two approaches will be taken. First, we shall explore the incentives on the part of the government to impose controls, and the reasons schools or individuals may accept the controls. Secondly, we shall make real-world observations concerning the evolution of controls within the public school system. The latter approach will involve an attempt to determine possible relationships between government financial support and public control over schools' decision making.

Once the decision is reached to subsidize private education, either through aid to schools or to families, some sort of guidelines to monitor the distribution of the public monies would be expected to accompany the subsidy program. Some sort of criteria must be established to determine those schools eligible to receive government assistance; for schools to receive subsidies, they must be "approved" or "certified" by the government. Similarly, individuals receiving aid to purchase private education must attend "approved" schools. Questions inevitably will arise concerning what constitutes approval, and as we shall subsequently discuss, the criteria itself will change over time. Among the likely questions is, for example, whether a newly-established religious school could meet the requirements for government subsidies.

Regardless of the form of subsidy chosen, or the manner in which it is distributed, the responsibility for establishing guidelines and monitoring for compliance will be assigned to an existing or new government agency.

Even at the outset, we can expect to find at least some small degree of government bureaucracy involvement in the provision of private education to accompany the subsidies. Let us assume that initial government interference in the actual provision of education by private schools is very minimal. Government's role consists merely of assuring taxpayers that their money ultimately flows to certified private schools and not to institutions with only the guise of education. Even with this assumption as our basis, it is unlikely that the bureaucracy will maintain its initially low profile. The institutional structure surrounding bureaucratic organization generally incites growth. For unlike private firms which operate under an incentive of profit-maximization, the bureaucracy usually strives to maximize the size of its budget.[3] Bigger is better for bureaucrats since their salary, prestige, and

[3]See William A. Niskanen, Jr., Bureaucracy and Representative Government (Chicago: Aldine-Atherton Company, 1971), for a fuller exposition of this subject.

power depend on the size of the bureau's budget.[4]

To increase their budget size, the bureaucrats must justify the need for larger appropriations on the part of their sponsor, whether it be the city council, the state legislature, or the U.S. Congress. One mechanism lending itself to visible justification of requests for a larger budget is increasing responsibilities and duties of the agency. With respect to education, these may include establishing more guidelines and rules applicable to schools seeking government approval in order to qualify for public subsidies. To set and monitor more rules requires an increased number of staff, bigger offices, better equipment and, consequently, a larger budget. Enroute to accomplishing their goal of budget maximization, the government agency simultaneously gains more control and more power over the privately-provided education.

Let us consider the maximization process of the bureaucrat somewhat further. Initially, the bureau's budget growth stems from the subsidy program, whether it be directed toward schools or consumers. Assuming little or no government regulations accompanying the subsidies, private schools could be made better off to an extent depending on the magnitude and effectiveness of the subsidy. Thus far, therefore, both the bureaucrats and those concerned with private education benefit from the public funding.

But as implied earlier, the process does not stop here. Bureaucrats will continue to strive for expanded budgets, and as suggested above, further budget increases lead to the imposition of more and more stringent controls on the output of private schools. To the schools involved, these controls represent a cost of participating in the subsidy program. The cost takes the form of loss of autonomy and loss of decision-making power. With the loss of autonomy, private schools will necessarily move closer and closer in terms of output to that of public schools, which means decreases in enrollments and, therefore, decreases in revenues to the private schools. The bureaus have the opportunity to continue imposing controls as long as the private schools receive some net benefits from the program. The budget-maximizing propensity of the bureaucrats insures that the process will come to an end only when the schools' net benefits from the subsidies approach zero.

Changes within the public school system in the U.S. throughout this century provide some insights concerning how the above process may take place. The analogy to the government subsidization of private education can be found in the public school system in the form of shifting financial responsibility from the local to state levels of government. We can explain the incentive for the latter shift in much the same manner as described

[4] This does not imply that budget maximization is the only variable in the bureaucrat's utility function. For further discussion see Jean-Luc Migue and Gerard Belanger, "Toward a General Theory of Managerial Discretion," Public Choice, 17 (Spring 1974): 27-42.

earlier. Again the goal remains the same--spread the cost of a good over the greatest number of persons possible. The costs to a single local school district of increasing its output of education are decreased if all districts, rather than it alone, bear the costs.[5]

Such shifts in financial responsibility to a higher level of government have characterized the public school system in the 1900s. In 1920, the average state contributed only 16.5 percent of the educational revenues of public schools, while local sources accounted for 83.2 percent of public school revenues.[6] The state's role in financing public education jumped sharply in the early 1940s and has continued to grow. In 1973 the average state was responsible for 40 percent of the public school revenues while the local school districts' contributions had declined to 51.3 percent.

These numbers tell us more when coupled with other observations. Some of the noteworthy changes are the alterations in the public school bureaucracy which have accompanied the restructuring of the means of financing public education. We are able to observe these most clearly by examining the state government agency responsible for public education--the State Department of Education (SDE).

In the early 1900s, the SDE existed for the purpose of providing statistical information on enrollment, attendance, and other related data pertaining to the school districts within the state. But with the increase in the role of the state in terms of financing came an increase in the powers and duties of each SDE. With the increase in power, the size of staffs within the agency has expanded, and educational budgets as reflected through per pupil expenditures have increased on average by 800 percent since 1920.

The enhanced powers of the SDE are manifested by a tenfold increase throughout this century in the rules and regulations to which the public schools are now subject. In addition to its once singular function of providing information, we now find the SDE often establishing guidelines for schools to follow, covering virtually every aspect of public educational provision. The agencies set curriculum requirements (as many as 34 in a single state) equally applicable to all districts within the state regardless of the type of locality--urban, rural, rich, or poor.[7] Teachers are subject not to regulations established by local districts, but must be

[5]For a discussion concerning how a majority of local school districts can be made better off with state funding, see Eugenia F. Toma, "Economic Organization of Public Education in the U.S." (Unpublished Ph.D dissertation, Virginia Polytechnic Institute and State University, 1977), pp. 55-78.

[6]Federal funding made up the remaining .3 percent.

[7]George Collins, "Constitutional and Legal Basis for State Action," in Education in the States: Nationwide Development Since (Cont.)

certified by the state and, therefore, according to state regulations. In Delaware, the SDE not only certifies teachers but, in addition, directly pays all teachers according to state salary schedules.[8] Not only do we find the SDE mandating what local school districts offer and who teaches it, but also oftentimes specifying how it is to be taught. A SDE may specify, in other words, the textbooks which may be used and even set requirements for the number of hours per day the various subjects must be taught. In Mississippi the requirements have reached such a point that student records must be kept on file in a SDE-specified brand of cabinet.[9]

While there are those persons who argue that the SDE's requirements and standardization procedures provide the equal opportunities to all segments of the population which prove so necessary for a free and just society, there are others who suggest the loss of control by localities has been a major contributing factor to the declining quality of public schools. Regardless of the interpretation in terms of "good" or "bad," the many rules and regulations handed down by the SDEs have led to a more uniform system of public education.

Evidence from the public school system and the general analysis presented thus far indicate a direct link between government funding and government controls. Since no distinctions have been made concerning particular types of subsidies and the degree of controls, a natural question now arises. Can private schools avoid controls and thus loss of autonomy by seeking a specific form of subsidy?

In spite of the different price and quality effects of various types of subsidies, there is little reason to expect government controls to be stifled whether the consumer or the producer receives the money. In the case of direct subsidies to schools, the path appears clear for the enactment of government controls. If schools do not comply with certain "guidelines," government withholds the funding. Likewise, if consumers do not attend a private school adhering to government regulations, they receive no subsidy. While sheer numbers may increase the compliance monitoring costs in the latter case, the schools would feel the same pressures to follow government standards under either circumstance. Even if the subsidy to the schools is indirect as is the case with consumer subsidies, noncompliance with government rules

[7](Cont.) 1900, ed. by Edgar Fuller and Jim Pearson (Washington, D.C.: National Education Association, 1969), pp. 10-16.

[8]Paul H. Johnston, "Delaware," in Education in the States: Historical Development and Outlook, ed. by Edgar Fuller and Jim Pearson (Washington, D.C.: National Education Association, 1969), pp. 207-31.

[9]Mississippi State Department of Education, Standards for Accreditation of Elementary and Secondary Schools: Bulletin 171 (4th ed.; Jackson, Mississippi: State Department of Education, 1976), p. 9.

implies no public aid. Viewing the effects of government subsidies on private schooling from the perspective of the costs imposed in the form of controls, there may be little or no difference with various types of subsidization.

IV. CONCLUSION

At first glance, the call for government subsidies to private education seems to be the route for solving the problems of the U.S. educational system. The reduced price resulting from government funding allows a greater number of persons to consume private schooling. Through vouchers, tax credits, or other forms of subsidy to the consumer, the private schools' incentive to provide "quality" education remains intact.

These effects, however, do not complete the scenario. Following the subsidies to private education, we expect a host of rules and regulations pertaining to the provision of private education to emerge. The bureau's incentive to increase the controls is immense. The schools must respond by accepting the regulations or lose their governmental funding. The bureau's imposition of controls ends only when they become so costly in terms of lost autonomy that private schools are in a position no better than that of the presubsidy era. Given these considerations, private educators may wish to re-evaluate their advocation of government subsidies.

THE CASE FOR ABOLISHING "FREE" EDUCATION

by

E. G. West
Economics Department,
Carleton University,
Ottawa, Canada

The reputation of American schools has never been at such a low ebb as it is in the late 1970s. More than half of the population are still not proficient in reading, writing, computation, and problem solving skills. Violence in schools remains a serious problem. And strikes, both of teachers and taxpayers, seem to grow in severity. A radical change is needed. What shall it be?

Many now believe that the time is ripe for more diversity, flexibility, local control, competition, and parental choice. All of these are necessary, they are convinced, to free the school system from its present over-bureaucratized, over-centralized, and 'calcified' form. There has been some progress in these directions already. Religious groups such as the Amish have won for themselves significant legal rights to educate their own members. And parents everywhere are now successfully seeking legal alternatives that will not infringe the compulsory education statutes. Often their main motive is the protection of their children. In recent months there has appeared a rash of learning exchange networks, travel study programs, independent home study courses, tutorial instruction, and small non-public "family" schools.

But in the long run more changes are needed. For even if parents and religious groups do win the right to educate, they still cannot retrieve the taxes they pay to finance the public schools. Those who opt out have to "pay twice" for their education.

The year 1978 saw the promise of some significant breakthrough on this issue with the chance of tax credits. This proposal would have attacked the heart of the public monopoly in education in a comprehensive way. For it would have suggested emphasis on the truth that it was the individual's own money (contributed not only by income tax but also by indirect taxes like the property tax, the sales tax, and so on) that was being returned, instead of receiving a grant from third parties in the shape of something vaguely called "public funds."

The Senate Finance Committee passed the Moynihan/Packwood (tax credit) bill, almost unanimously early in 1978.[1] Attempts were made later in the year to pass legislation on the floor of the House (the House of Representatives had its own, similar bill). However, there was apparently triumphant resistance via the established educational bureau. The President and the Secretary of H.E.W., Joseph Califano declared solidly

[1] My testimony before the Hearings of the Senate Finance Committee in January 1978 is reproduced in "Tuition Tax Credit Proposals: An Economic Analysis of the 1978 Packwood/Moynihan Bill." Policy Review, 3, (Winter 1978).

against the new proposal,[2] the latter fearing a large scale desertion from public schools--despite the fact that the tax credits were to be no more than $500. Insofar as Califano's fear was justified, it carried an implicit adverse parental judgment on the public schools.

Another and equally widely discussed reform is that of education vouchers. And this instrument, whereby the user of a school is paid its equivalent cash value in a voucher, spendable at the school of his or her choice, is not only the favorite of academics. Religious groups are also supporting the idea. In Missouri, for instance, groups of taxpayers who have been suing 23 public school districts on the grounds that they teach religion in the form of secular humanism, have been asking for an educational voucher system as the only way to avoid violation of the First Amendment.

The current leading intellectual advocate for this scheme (a scheme that has a long history going back to Tom Paine) is the 1976 Nobel prize-winning economist Professor Milton Friedman. Friedman has always separated three levels of issues. First, whether schooling should be compulsory, second, whether it should be governmentally financed or privately financed, third, how it should be organized. His argument for vouchers is continually made on the understanding that the first two of these issues, compulsion and the degree of government finance, are put on one side. In other words, assuming that we have compulsion, and assuming that the government is in the business of education to the extent of full, 100 percent, finance, a voucher scheme would produce a better and more effective organization of government finance than the present one. That is, vouchers provide a superior alternative to a system of governmentally-run as well as governmentally-financed schools.

If, for instance, the government is now spending $1000 on a child's education in a public school, Friedman's voucher scheme would direct this same $1000, not to the school, but to the parent or guardian. The parent would not be allowed to spend it on non-educational goods. When spending it on education, however, he would be allowed to do so at the school of his or her choice.

In my opinion, the voucher system does not stand much chance of being accepted in present American circumstances. Moreover, it would incur some further dangers even if it was accepted. The organized teacher unions have stated their uncompromising opposition to vouchers, and this alone is a political reality that must be faced.

The second even more important "roadblock" is the current attitude of the Supreme Court. It is clear from their recent deliberations that the Court would regard vouchers as aid from the state. The Court's reasoning in the famous Nyquist case in 1973, treats vouchers along with tax exemptions for schooling as state aid.[3] And under the

[2] Tax credits for higher education however, were accepted.

[3] E. G. West, "An Economic Analysis of the Law (Cont.)

First Amendment the state is not allowed to provide aid to parochial schools in any significant way. Since 90 percent of the nonpublic school population in America are in parochial schools the chances of a voucher system having much effect in the short run at least will therefore be very small.

It is true that the Nyquist case concerned the particular circumstances in New York where a state government was deliberately attempting to enable particular parochial schools to survive (largely in order to prevent embarrassment to the public schools.) It is arguable that a universal voucher scheme for all parents whether in public schools or private would have no primary effect of aiding religion. My own review of the Court's language in other cases besides the Nyquist leads me, however, to the opinion that they would not allow a universal voucher scheme, even on these wider arguments.

Even if the voucher system was accepted, there is another danger to consider. They would presumably be spendable in the small remaining private sector of education. At the least, the government authorities would impose some initial condition on these schools to qualify them for receiving the government finance that vouchers embody. Insofar as government inspectors have a prior interest in government (public) schools, there is a probability that they would begin to impose progressively more restrictive conditions on the private schools, especially where they threatened to "poach" the customers from the public schools. The ultimate result could be the destruction, or at least reduction, of the small private sector and the only remaining competitor with the public.

It is important to return to the two issues that Friedman assumes to be given or settled, the existence of compulsory legislation and the situation where government authorities finance schooling up to almost 100 percent of requirements. The first of these issues, compulsion, for all practical purposes can be taken as undisputed in the way that Friedman does.

The second issue, however, full government finance, should not be taken as settled. In the past, Friedman has speculated that the rationale for government finance has stemmed from the 'external benefits' of education. These arise where the action of an individual benefits not only himself but others in society. Society, it is argued, stands to gain for instance from the existence of a literate population. It will also benefit if schooling leads to a reduction of crime and the promotion of law and order.

But the trouble with this argument is that it could apply to most things. It follows that government should be providing most of us with our everyday needs at zero price. Every time I wash myself I provide benefits to people around me. On this argument should society provide me with free soap and free hot water? It will be replied that in this case the incentives to

[3](Cont.) and Politics of Nonpublic School Aid," Journal of Law and Economics, 19 (Spring 1976).

pursue my own personal comfort will be sufficient to secure my own cleanliness at my own cost. But if private incentives are enough in the case of cleanliness, why not in the case of education? Where is the evidence that people will not purchase education and become literate in the pursuit of their own private benefits, and in sufficient quantities to make the marginal cost of further encouragement?

We should also remember that we are considering the educational purchasing behavior of private individuals not in the present world of high taxes but in a world where the government has not stepped in to tax them to provide them with "free" education. In the present world everybody pays taxes, right down to the poorest. "Free" education is purchased from revenues from regressive property taxes, sales taxes, and from many other taxes that the poor are not able to avoid. Were the poor to be excused from all these numerous taxes who is to say that they would not spend the proceeds in positively-priced education? Where is the evidence?

It has never been demonstrated that most of the poor in America today are not paying for their own "free" education from their own tax contributions. Remember that these contributions are collected over a lifetime. I have estimated elsewhere that a poor family contributes a total undiscounted lifetime contribution in education taxes of $7,380.[4] We have to remember too, that the poor typically receive an education that is of a shorter duration than others. So while their cost contributions are lower than average so are their benefits. It is therefore not clear that they are not contributing enough to finance themselves entirely. If they are, and especially if means can be found to allow parents to borrow on their future incomes, then compulsion is the only form of intervention that is needed. Government operated zero price schools are superfluous, and, judging by the heavy bureaucratic overheads, excessively costly.

It is interesting that in 1976 Milton Friedman came to the opinion that the argument of external benefits to society is, after all, no longer valid as a justification for government finance of education.[5] This means that of his three separate issues only the first, compulsion, now remains as undisputed in his reasoning. One may now ask, if there is no argument for government providing the finance in education, why is there an argument for providing vouchers which are nothing else but tickets or checks that channel this finance through families? If we take the two issues together, the case for Friedman vouchers collapses; for there is no justified government finance to supply them. Friedman argues nevertheless, that, if we cannot take the two issues together, if we are in other words stuck with government school finance, then vouchers would be a better way of allocating it. If one has boldness to argue for

[4] E. G. West, Nonpublic School Aid, Lexington Books (D. C. Heath), 1976, p. 54.

[5] Ibid., p. 92.

vouchers however, it is difficult to see why the boldness stops at the government finance question. Why cannot the theory of government intervention be argued comprehensively in one package?

What then could be done? Radical or global overnight revolutions are out of the question. What is required in the first instance is a policy of gradualism, but gradualism in the right direction. The correct direction is indicated, in my view, in the insistence upon continuous questioning of "who pays for what" in education. Consider next year's inevitable financial problem in the public schools. Undoubtedly there will be yet another cost increase and this for "genuine" reasons as well as for reasons for further monopoly or teacher union development. The key strategy is to focus on the method of providing revenues for this next annual increase. The government presumably knows on whom the burden will fall. If it doesn't then, on its own admission, it is supervising a gigantic public school system in the dark, a system that certainly would not seem consistent with the Equal Treatment clause. It cannot argue that its taxes are not preventing every family from buying the same education privately.

The government therefore will be obliged, on persistent questioning, to announce its expectations about the distributions of the burdens of next year's tax increase. Normally cost increases are financed out of marginal increases in several of the taxes, sales taxes, property taxes and so on. At this stage an estimate should be made as to how much each family with children at school will be contributing to these taxes. The next step is to insist that some of the family's contributions be paid directly at the door of the school instead of indirectly via various conventional tax payments. In this way we will establish what can be called a "marginal user tax" as an additional tax source, but one that is direct and reveals some information as to who is paying for what.

This user tax system is in effect equivalent to a fee or tuition payment system. The objection will then be heard that the clock has been put back because education is no longer "free." This seems to be the key argument to meet head on. Its advocates always put quotation marks around the word "free" whenever they describe the public system. The proposal of the user tax made here is not one of abolishing the quotation marks around the adjective. But if education is not really free, as the advocates tacitly admit by their use of quotation marks, what is the argument against poor parents paying their conventional tax contribution in the form of a price at the door of the school? The program initially at least is a very modest one and meets the requirement of gradualism. For it is not the full price of their education that the family will be charged but merely a price sufficient to cover the marginal increase in the annual cost.

For the sake of illustration, suppose it is found that parents with children in school fall into two classes--a rich class that will face additional taxes, raising from

each member another $100 to meet the increase in school costs for the educational year 1978-79, and a poor class with members facing additional taxes which take from them an additional $50 for the year in question. The proposal here is that all parents are charged $50 at the door of the school. (The rich parents will pay another $50 through increased conventional taxes.)

If this policy is resolutely pressed, and if it succeeds, it will have the effect of removing one of the most entrenched illusions in the whole public education mythology, the illusion that people are getting something that other people are paying for entirely. The illusion of free education can be shattered even with the most modest weekly payments by parents. Even if a mere dollar a week is charged, the principle will be established, the illusion will be abolished and education might be set on the correct course once and for all.[6]

After several years of cost increases the user charge or fee will gradually rise. People will be no worse off than they would have been if the present system was continued with. But they stand to be increasingly better off because they will be given increasing scope for choice. Every time a parent transfers his child from school A to school B he or she will now automatically transfer funds to the school of his or her choice. Because he now contributes funds directly in the form of fees, his preferences will now be considered seriously. At the same time the school that is losing customers will be placed more on the defensive since they will automatically be losing revenues. This financial discipline is the claimed virtue of the voucher system of course. What is being demonstrated here, however, is an alternative to such a system, that the courts could not strike down, and one that does not involve the "two way or round trip" of money from parents to the government and back to parents again.

Finally it may be objected that the fees will never rise sufficiently to be of much significance to the administrators of schools. This is a matter of degree, however. One would have thought that a fee paid by parents that covers even ten percent of the school finances would be of considerable marginal significance. And ten percent should be reached in a year or two. However, if one wants to give the parents even further scope, one should concentrate on the lifetime taxes that they are paying under the present system. The parents could be given the option of access to their future incomes by way of a loan scheme to service lower education. This scheme would enable them to pledge their future incomes and draw upon them so as to pay up to full cost of their education. In this form the parents would handle all the finance as in the Friedman voucher system, but with this difference: There would no longer be any ambiguity as to who is providing the finance. If it is clear that it is the parents' own money that is being spent there can be no

[6]Special arrangements and concessions would have to be made for the minority families on welfare.

argument by the Supreme Court that the state is aiding religion or anything else. The remaining government intervention will be a financial, not an educational one. It will be for the purposes of improving capital markets not for entering the education business.

STATE-AID FOR PRIVATE EDUCATION: CURSE OR BLESSING, AND FOR WHOM?

Richard E. Wagner

The tuition that private schools must charge, in conjunction with the absence of tuition in the collective schools, introduces a bias in favor of collective schools. In recent years, perhaps to an important extent due to the economic stagnation of the past decade or so, this bias has placed private schools under increasingly intense financial pressure.[1] In response to the continued and increasing economic difficulty faced by private schools, many people interested in the existence and success of private schools have advocated some change in state policy to assist the survival of private schools. Other people have suggested that such aid may be a Trojan Horse that will actually promote the destruction of private schooling. It is also possible that different forms of state policy can have different impacts upon private schooling.

The purpose of this symposium is to explore state-aid from the perspective of those interested in the survival of private education. Nonetheless, the set of people interested in the survival of private education should not be construed too narrowly. Present users of private education would certainly stand to gain from the injection of state aid. People who presently have no option but to attend the collective school in their area would also have much to gain by state policies that strengthen the ability of people to choose private schools over collective schools if they wish.

In this essay I first describe the two main approaches to achieving parity among private and collective schooling, then I describe the various forms of state aid that have been advocated. Since the meaning of "state aid" is not self-evident, I subsequently explore the meaning of state aid, considering in the process why it is that tax deductions and credits are not properly viewed as forms of state aid. Before concluding, I consider briefly some of the speculation people have entertained about the likelihood of eventual state control of private schools under different programs of state aid.

Avenues to Parity Among Families and Schools

Families with children attending private schools are discriminated against relative to families with children attending collective schools. Children who attend collective schools pay no tuition; the only expense their families bear is the tax they must pay. Families with children attending private schools must continue to pay tax, but they

[1] That many people choose to pay tuitions to attend private schools while at the same time continuing to pay taxes to support the collective school system must, of course, be looked upon as an indicator of the success of private schooling in America. To be able to survive in the face of the enormous gap in price attests to the value of the service they provide.

also must pay tuition to the private school. Among families with children attending different types of schools, families with children in private schools will bear a greater burden in equipping their children for adulthood.

There are two ways of achieving parity among families with children attending different types of schools. One way is to eliminate the subsidy given to collective schools.[2] As the subsidy is reduced, tuition would have to be imposed if the school is to continue its operation. With elimination of the subsidy, tuition charges would have to cover all the expenses of operating collective schools. Parity would have been achieved between the burdens borne by families with children attending the different types of schools.

Elimination of the subsidy for collective schools seems a quite remote prospect for the foreseeable future. There seems to be no pressure for the injection of tuition into the finance of collective schools. And why should there be? Suppliers who are granted subsidies are rarely found to advocate the elimination of those subsidies. State bureaus are no different from private firms in this regard.

It is at least partly out of recognition of this simple fact of political reality that attention has turned to different ways of achieving parity. These different ways would all involve an extension of the subsidy to private schools rather than a withdrawal of it from collective schools. Instead of raising the price of attending collective schools toward that of attending private schools, the price of attending private schools would be lowered toward that of attending collective schools. On economic grounds, a system in which no one is subsidized is, of course, better than one in which everyone is subsidized, for the latter arrangement requires, at the minimum, expenses of administration that the former arrangement avoids. So, it is politics that has brought questions of different forms of subsidy for private schooling to the national agenda; economics would have focused on methods of bringing pricing to collective schooling.

Recent Suggestions for State-Aid for Private Schooling

Most of the interest in achieving parity between families with children attending collective schools and families with children attending private schools has focused on different ways of reducing the expense borne in the latter instance. This expense may be reduced either by reducing the expenses borne by the schools or by reducing the expenses borne by the parents. The ultimate effect would in many instances be much the same in either case, but not always.

There are a wide variety of subsidy programs that could be developed for private schools. Funds for scholarships could be awarded. Subsidized textual materials or laboratory equipment could be

[2] For a proposal along these lines, along with contrary argument, see E. G. West, ed., Nonpublic School Aid (Lexington, Mass.: D. C. Heath, 1975).

provided. The interest on construction loans could also be subsidized. A more general, simple per pupil subsidy could also be developed, and this type of subsidy could be made more complex by allowing it to vary by incorporating such factors as the grade level of the pupils and the geographic region in which the school is located.

The choice among these forms, as well as among other forms that could be articulated, could affect the specific character of private schooling. Subsidies for construction, for instance, would encourage spending on buildings relative to spending on other objects. Other specific forms of subsidization would tend to have similar effects in encouraging shifts in the particular components that comprise private schooling. A general subsidy for the expenses incurred by a private school, such as a per-pupil subsidy, would be closest in its impact to a program of direct subsidies to families with children attending private schools.

As for subsidies to families with children attending private schools, such programs could include scholarships given directly to students, vouchers given to families, tax credits allowed for tuitions paid to private schools, and tax deductions permitted for such tuitions. Vouchers have, of course, been discussed for more than a decade now, and have been tried in tightly constrained circumstances in several instances. A proposal for tax credits--the Moynihan-Packwood bill--narrowly failed in the 1978 congress, though President Carter had firmly announced his intention to veto the bill if it had passed. The purpose of all these various options is to reduce the expenses borne by a family whose children attend a private rather than a collective school.

What is "State Aid"?

While the options just noted are all treated by proponents of private schooling as different forms of state aid, such treatment is not really an apt and proper use of language. "State aid" is not a self-defining term. There is no possibility of separating the private and the public sectors of our (or of any) economy, and discerning flows from the public to the private sector and labeling those flows "aid." For one thing, the flow may be only one side of a reciprocal flow indicating a contractual relation. Aid implies bias rather than contract.

Even with respect to bias, one of the basic lessons of the economic theory of general equilibrium or interdependence is that state biases at one point in the economy will have consequences throughout the economy, though the intensity of this impact will not be uniform. With respect to the state and religion, for instance, it is nearly impossible for state action to leave religion absolutely unaffected. Some state actions will aid churches in the conduct of their activities, while others will interfere, but few, if any, will ever be neutral.

State decisions pertaining to the quality of roads will enhance or diminish the ability of people to travel to a particular church. Government

decisions about allowing or prohibiting curbside parking will likewise affect the ease with which a church can be attended, as well as possibly affecting a budgetary decision by the church about the amount to be allocated for parking space on church premises. More remotely, a government program that influences, positively or negatively, the production of timber or brick will influence the costliness of church construction.

While a general subsidy to the production of brick would not be viewed as state aid for churches, a program that allowed churches to receive subsidies for their use of brick in construction would likely be viewed as state aid, yet both programs could have the same impact on churches. What would seem to be at stake might be said to be a matter of directness or immediacy; the shorter the chain of transactions between the state action and the unit being considered, the more reasonable it would seem to label the situation as one of state aid.

In this light most of the ways of giving direct assistance to private schools would seem reasonably to be classified as state aid. The creation of scholarship funds for schools, the provision of subsidized textual materials and equipment, and the provision of loans for construction, as well as payments for the number of students in attendance would all seem reasonably to be forms of state aid. But if publishers were given special tax benefits for their textbook divisions, this would not be appropriately considered as a subsidy for private schools, even though private schools would be one of the beneficiaries of the lower prices for textbooks.

With respect to giving assistance directly to parents and children, scholarship aid and vouchers seem reasonably to be forms of state aid. In both of these cases, tax revenues are assigned to expenditure categories through the budgetary process. The recipients have benefited directly from the payment made by the state. In these instances there is a direct, short route between the collection of taxes and the passing of those revenues to recipients through a program of state expenditure. Since the regulatory activities of the state clearly have wider scope and greater latitude where direct state aid is involved, such activities would certainly be among the activities most likely to be subject to state regulation.

But directness is not sufficient in reaching a conclusion about the presence of state aid. Various laws regarding provision for the handicapped create a bias in favor of handicapped persons relative to what would exist in the absence of such laws. Yet it would not be appropriate to call such laws a form of state aid, even though the impact of the laws is to affect favorably some people relative to others. Such laws are more reasonably interpreted as an attempt to create equality in certain respects, as, for instance, in the ability to have access to various buildings.

It is quite similar with tax laws that allow people to deduct such expenses as those associated with illness or casualty loss. It is not

appropriate to speak of such laws as creating a bias in favor of such people; it is not appropriate to speak of such laws as a form of state aid, even though the effect of such laws does assist some people relative to others. It is far more appropriate to speak of such provisions as being necessary to achieve income, one of whom lost a house in a tornado and the other of whom did not.

Tax Deductions, Tax Credits, and "State Aid"

Tax deductions and tax credits are also referred to as state aid in the discussions about possible state policies that would have the effect of strengthening private education. But deductions and credits are categorically different from vouchers and other programs of direct subsidy, even if the ultimate economic impact might be similar. To continue to refer to such tax legislation as a form of state aid for private schooling is to continue to engage in a misuse of language by blurring distinctions that are important to make.

To label deductions and credits as forms of state aid is, of course, consistent with the development of the tax expenditure budget. This budget treats deductions and credits as forms of government expenditure, only they happen to be dressed up in tax language. This is not the place to examine the fallacies of the tax expenditure budget; I have done this elsewhere.[3]

It suffices to say here that this budget entails the same confusions about an interdependent economy as were noted earlier. In saying that a clear separation cannot be made between direct government expenditure and the consequences of a variety of government programs and public laws, the tax expenditure budget ends up, if pursued consistently, in the position that all income belongs to the state. A program that allows a person to deduct medical expenses becomes equivalent to a program of government expenditure for medical expenses. A decision to exclude an activity from the tax base becomes, in other words and by extension of the argument, a decision to subsidize. Disposable income must, as a matter of logical consistency, come to be viewed ultimately as a government subsidy; disposable income becomes that which the state returns to citizens through a choice not to tax it away.

The real purposes of deductions and credits, as suggested above, have to do either with the attainment of equality in certain respects among people or the attainment of objectives felt important by Congress. The deduction for medical expenses, for instance, is aimed at attaining equity between people of otherwise equal income positions who differ in their medical expenses. The deduction reflects the Congressional judgment that income after medical expenses rather than income before

[3]Richard E. Wagner, The Tax Expenditure Budget: An Exercise in Fiscal Impressionism (Washington: Tax Foundation, forthcoming).

medical expenses is the preferred definition of taxpaying capacity.

One effect of the medical deduction is to increase the total amount of payment for medical services. This expansion in expenditure in turn both increases employment in medical occupations and increases the income of people in those occupations in which the supply of labor is not perfectly elastic. Yet the medical deduction would not be viewed appropriately as a form of state aid for physicians, even though one consequence of the deduction is an increase in their income.

Deductions are concerned most fundamentally with the definition of taxpaying capacity. So are tax credits. for that matter, only when credits are advocated instead of deductions it is usually because the advocate would like to see some modification in the distribution of disposable income. If income were taxed at proportional rates, deductions would be indistinguishable from credits. Under progressive taxation, however, the use of a credit in place of a deduction will reduce the tax payments of those in the lower income ranges while increasing the payments of those in the upper income ranges. While this distributional difference under progressive taxation has tended to produce a contrast between credits and deductions, it is important to note that both are variations on the same central principle, and the distinction between them would vanish under proportional income taxation.

As one aspect of raising children, parents bear the duty of preparing their children for adulthood. This preparation will, of course, be pursued differently by different people. Nonetheless, schooling will be an important, and typically the most costly, element of such preparation. Of two families with equal incomes, only with one having more children in school than the other, the former family bears a greater burden in preparing children for adulthood. It is no different in this respect from one person having greater medical expenses than another. Consequently, deductibility of the educational expenses incurred in equipping children for adulthood would fit easily within the spirit of the American approach to the definition of taxable income. Tax credits would also fit within this spirit, even though the distributional aspects of credits violate the pure principle of deductibility.

The central purpose of allowing the deductibility of educational expenses would be to achieve equality between parents at the same income level who face different responsibilities for nurturing and caring for children. The deductibility of educational expenses, as well as a program of tax credits, would, of course, reduce more strongly the tax burdens of those who bear relatively heavy expenses of education. But it would not be appropriate to slip from this observation to the inference that the deduction would provide state aid for such parents. Instead, the deduction would be necessary to achieve parity between parents who are otherwise equal economically, but who face

different responsibilities in equipping children to lead adult lives.

One might argue that universal, collectivist education would also be able to produce parity, for all families would be alleviated from any direct expense for schooling. This would be true, but universal, collectivist education does not exist. Moreover, an attempt to make it mandatory in Oregon was ruled unconstitutional in Pierce v. Society of Sisters, and such an effort would probably be greeted in the same way today.[4]

Therefore, there is no alternative to the existence of private schooling. There is no possibility of the nonexistence of private schooling that would operate to render irrelevant the concerns about parity. The existence of private schooling, in conjunction with the reasonable view that people with equal incomes but with unequal responsibility for the education of children should bear different amounts of tax to reflect this unequal responsibility, combines to create a reasonable case within American tax principles for the deductibility of the expenses of educating children. Deductions and credits are not, to repeat, properly looked upon as a form of state aid; rather they are appropriate devices to use in an effort to achieve greater equity among otherwise equally situated taxpayers.

[4] Pierce v. Society of Sisters, 268 U.S. 510 (1935). For an examination of the contemporary implications of Pierce, see Stephen Arons, "The Separation of School and State: Pierce Reconsidered," Harvard Education Review 46 (February 1976), 76-104 (or the reprint available from The Center for Independent Education, $1.00).

The Speculation over State Control

Some people concerned with the survival of private schooling have expressed concern about what the courts and various regulatory agencies will do if state aid does transpire. Indeed, it is this concern that motivated the development of this symposium. Once again, it seems clearly to be an inappropriate use of language to refer to deductions and credits as state aid. Vouchers as well as forms of aid directly to schools would certainly qualify as state aid, but not deductions and credits.

This point aside, the concern over state regulation is certainly a legitimate one. Yet I would caution against undue worry. For one thing, the future is never fully predictable. What seems to be a source of worry now may not be so much of a worry in a few years. This is not to say that the worries are unfounded, or that any state action that makes it easier for private schools to finance their activities is desirable from the perspective of private schooling.

Programs like direct grants and vouchers would certainly elicit strong pressures for regulation, and these pressures would seem difficult to withstand at the present time. A short period of less stringent financial restraint will, with a high probability, have been purchased with the

elimination of independence. There is no guarantee that tax deductions or tax credits would not also lead to the elimination of independence. This outcome would be less likely with deductions or credits. It might even be of comfort to some supporters of private education to feel strongly assured that the process of encroachment upon independence will, if it occurs, very likely proceed more slowly than it would with vouchers or other forms of direct assistance.

Much has been said of the perspective of those presently interested in private schooling. Yet one of the main sets of beneficiaries from the extension of choice in education would be those people who presently have no choice in education. A policy of deductions or credits will be option-expanding, for those who now feel too constrained economically to exercise choice will come to feel less constrained. The development of these arguments is, of course, the topic of a separate essay.[5]

It suffices here merely to note again that the purpose of the deduction or credit would not be simply to aid a set of people who presently are sending their children to private schools. This will certainly be one consequence of such tax legislation, and such legislation is supportable on well accepted equity grounds in light of the duty that parenthood creates with respect to the raising of children. More generally, in the process of creating conditions for equity among otherwise equally situated citizens, deductions or credits will make it possible for people to exercise choice who formerly felt unable to do so.

Even if all of the different policies described above are rejected in favor of the status quo, there is no guarantee that controls will not be imposed anyway. To maintain the status quo does not ensure against the development of regulatory initiatives. Someone could easily make a case for the regulation of private education on the grounds of interstate commerce, for schools are clearly engaged in such commerce far more heavily than many activities already regulated by virtue of just such a rationale. While the presence of government financial assistance may make it easier for the state to impose regulation, such assistance is not a necessary condition for the imposition of such regulation. There simply is no way that such immunity can be guaranteed. The best protection lies in a strong base of political support. By increasing the number of people able to choose private schooling, tax deductions or credits would expand the number of people with an interest in private schooling. The realization by supporters of collectivist education of this property of deductions and credits was surely one of the main reasons why the Moynihan-Packwood bill was contested so strenuously.

[5]For a variety of essays on choice in education, see Parents, Teachers and Children: Prospects for Choice in American Education (San Francisco: Institute for Contemporary Studies, 1978).

In Conclusion

The controversy over state aid to private schooling has become sadly confused by failing to make some proper distinctions. Subsidies directly to schools and vouchers for families seem clearly to possess stronger dangers to private schooling than do tax deductions and credits. Deductions and credits are not without their dangers, of course, but then neither is the status quo. Deductions and credits have a sound basis for support within existing, accepted principles of taxation, and would also expand the base of people who support private education as more people came to exercise such choices.

In part, the danger to private schooling will depend on the sense of value residing within our society as to the value of choice in education. The more choice is seen to be of value to all people rather than of value merely to an elite few, the stronger will be the base of support for private education. The danger of the status quo is that choice is effectively denied to most Americans, and to revel in the status quo as at least offering a little safety from state regulation is, among other things to perpetuate the view that choice in education is of value only for an elite few.

While deductions and credits have an element of danger associated with them, the danger is far less than that associated with vouchers and other programs of direct aid. If the danger can be managed, deductions or credits can extend choice potentially to all Americans, thereby strengthening the base of support for private education, as choice in education comes to be experienced and valued by all rather than by just a few.

AN INCENTIVE PLAN FOR SUBSIDIZING PRIVATE SCHOOLS

Randall G. Holcombe
Auburn University

The extension of government subsidization to private schools would necessarily result in increased governmental control over education. The government could not hand out money to every organization claiming to be an educational institution or every individual claiming to be a student. To do so would invite monumental abuse. Some standard would have to be used to decide which organizations or individuals were engaging in legitimate educational activities and so deserve a subsidy. In order to qualify for subsidization, therefore, schools would have to meet some standards, which would limit the freedom of choice of both schools and students. Institutions receiving the subsidy would be subject to some degree of government control.

If subsidies were extended to private schools, some form of governmental standards would not only be inevitable but also desirable. One needs little imagination to foresee the types of educational institutions that might arise with no standards to exclude some organizations from subsidization. Joe's Garage could become Joe's School of Auto Repair, with Joe's former employees becoming his students learning to repair autos. Subsidies to Joe's school could be used to help each student buy an automobile for use in driver's education. In fact, Joe's employees probably do learn something about repairing automobiles while they work, so Joe's School of Auto Repair would qualify as an educational institution even if some general standard were used, such as whether the students acquired any worthwhile knowledge during the course of their attendance. A carefully engineered set of standards for eligibility would be both necessary and desirable if subsidies were to be made available to private schools. In the process, some of the freedom of private schools would be sacrificed.[1]

One might argue that a school would always have the alternative of foregoing the subsidy in order to remain free of governmental control. Unfortunately, the more extensive school subsidies are, the more difficult it will be for unsubsidized schools to survive. As things are today, one can choose to go to publicly financed schools or to private schools that receive relatively little public support.[2] If one is dissatisfied

[1]The arguments of this paper are specifically aimed at private elementary and secondary schools, but many of the same arguments would apply to colleges and universities as well.

[2]Even private schools receive benefits in terms of their tax status as nonprofit institutions, scholarships given to education students in universities, and other types of general support of the educational system. The impact of indirect support may not be inconsequential. For example, the fact that most private school teachers were educated in public universities (due to the fact that subsidized public (Cont.)

with the type of education provided in public schools, the only alternative is to spend the extra money to attend a private school. Dissatisfaction with public schools is, of course, what causes people to seek out private alternatives. Private schools are not more widespread because of the large additional cost of attendance. If along with public schools there were many heavily subsidized private schools, the range of alternatives in subsidized education would be wider, making it even harder for unsubsidized schools to survive. More extensive subsidies for education would most definitely be detrimental to any school that wished to remain independent of governmental subsidies and the accompanying governmental control.[3]

Private schools that complied with the standards and qualified for the subsidy would fare better under a subsidy scheme, since they would be in a better position to compete with public schools for students. Any plan to subsidize private schools would bring more educational institutions under governmental control, but would strengthen the role of private education. A carefully planned subsidy scheme with the appropriate standards for subsidization could greatly benefit the educational system, whereas a poorly designed system could have unfortunate consequences.

One might be tempted to retain the status quo were it not for the increasing dissatisfaction with public schools. Discipline problems, declining ability of graduates, and recently publicized cases of illiterate individuals holding high school diplomas all cast public education in an unfavorable light, and there is widespread agreement that changes need to be made. The requirement that individuals must pass a test showing competence in basic skills before a diploma is awarded, such as was instituted in Florida, is a step in the right direction. It provides an incentive to learn. An increased role for private schools could also be a path toward better education, but to follow this path would require careful planning. If an appropriate subsidization scheme were enacted, private schools might be regulated into imitating many of the undesirable characteristics of public schools.

The question about whether or not private schools should receive subsidies has good arguments on both sides, and ultimately is a normative

[2](Cont.) universities are less expensive) undoubtedly makes private school teaching more similar to public school teaching than otherwise would be the case.

[3]In a very real sense, subsidized private schools would tend to imitate characteristics of public schools due to the subsidy. Thus, the term "subsidized private schools" should imply educational characteristics lying somewhere between public and private schools. While this paper uses the same term for both subsidized and unsubsidized and private schools, perhaps a more distinguishing nomenclature would be appropriate.

question.[4] The increased governmental control accompanying the subsidies would reduce some of the distinguishing characteristics of private schools, thus taking away some of their value as alternatives to public education. On the other hand, subsidies for private schools would make the private school alternative more readily available to students, making a wider range of alternative institutions available to more people.

Would the increased availability of private schools compensate for the more standardized product that would accompany subsidization? While the question is ultimately normative, the actual results of subsidizing private schools would depend a great deal upon the type of subsidy employed.

Incentives in Education

After having discussed the effects of subsidization upon private educational institutions, the next step is to question why the current institutions of public education are not completely satisfactory. The first reason, and one which has already been mentioned, is that public schools do not offer the student much of a choice in terms of the type of education offered. Public education is a very standardized product, and an increasing role for private schools might make education a less standardized product. To the individual consumer, the wider variety of choice would have to be beneficial.[5]

However, this reason for desiring subsidization of private schools, while theoretically valid, is probably not practically significant. Most private schools are college preparatory schools,[6] which differ from public schools primarily due to a higher caliber of teachers and students. Most public school systems that are large enough will divide their classes into more advanced and more basic sections, so any area large enough to support a private school will probably have advanced classes in public schools for good

[4] The question about whether the government should finance education at all will not be considered, since the elimination of governmental funding is not a realistic possibility.

[5] A wide variety of choice may not be optimal from a social standpoint, though. One benefit of more standardized schools is that the citizens of a country have a more common background, providing more national unity. For example, schools using languages other than English as the primary language would probably be harmful to the society as a whole. (Spanish-speaking schools might be popular in Miami, South Texas, California, etc.) Canada is having a problem of this type now which is becoming a significant issue. A more standardized educational background could have eliminated the problem. In short, there are some good public goods arguments for providing incentives for a more standardized education.

[6] The important exceptions are religiously affiliated schools.

students. The private schools are chosen because consumers view the product to be of a higher quality rather than of a different nature. The question then becomes why, in the views of some people anyway, public school cannot produce as high quality a product as private schools.

Two obvious reasons might be listed most often: private schools are likely to have more money, and private schools are likely to have a more select group of students. The veracity of these claims are not at issue here, for it is a third, less obvious, but probably more significant reason that will occupy the discussion of the remainder of this section. Private schools have a greater incentive to deliver high quality education.

In order to compete with public schools, private schools must maintain a reputation for providing high quality education with the characteristics desired by the consumers of education. Otherwise, individuals would attend public schools that are considerably less costly for the student and the student's family. Because of the large additional cost to private school clientele, the fact that these schools are able to attract students is a tribute to their ability to produce education with some valuable characteristics not found in public schools. The continued survival of private schools under the present financing system is dependent upon the private schools' ability to continue to produce a product significantly more valuable in the eyes of some consumers than public education. Only then will individuals be willing to pay the premium to utilize private schools.

Private schools have an incentive to produce quality education because unless consumers view private education as significantly better, private schools will attract no students and will be forced to close. Public schools have no similar incentives. Public schools are so much more inexpensive to their clientele that they will always be able to attract some students. Furthermore, the revenue of public schools is not tied at all to the quality of output, as in private schools. Instead, it is tied to the assessed value of property and the tax rate. Private schools can raise more money by attracting more students. Public schools can raise more money by raising taxes. Increasing enrollment will not change total public school revenue; by itself it will lower per pupil expenditures.

Looked at from the standpoint of the public school institution, there is no financial incentive to provide high quality education. Sadly, economic incentives for individual teachers are much the same. A teacher's pay is based upon the number of years of teaching and upon the number of degrees held. The teacher has an incentive to remain in teaching for a number of years and to receive more education, but no economic incentive to do a good job in the classroom. The tenure policies of public schools aggravate this problem. In many school systems, elementary and secondary teachers can receive tenure in as little as three years.

After that period of time, the teacher has a financial incentive only to remain on the job and get more education. The correlation between these factors and ability in the classroom is not obvious.

This is lamentable not only because teachers do not have an incentive to try hard. They in fact do not have a financial incentive to try hard, and they undoubtedly would try harder if the good teachers were rewarded more highly. But even if all teachers tried their hardest, the system would still leave much to be desired. One role of incentives is to entice individuals to give their best effort. Another role is to select those individuals who are best at a job. If good teachers were paid more, the better teachers would have an incentive to continue their teaching careers, while worse teachers would have an incentive to find another line of work. As it is, no such incentives exist in public schools. Bad teachers and good teachers are treated alike, and distinctions are made based only on the number of years of service and degrees held.[7]

A private school, like any other institution whose revenues are dependent upon customer satisfaction, has an incentive to hire good teachers to produce quality education, to maintain or increase the school's enrollment. If the school retains poor teachers, it suffers financially. So the school will always try to maintain a good quality teacher rather than an old or a well-educated one. This incentive to provide good education is undoubtedly the key to the quality of private schools and the reason that they are able to attract students from public schools.

One reason for financially supporting private schools would be to make a wider variety of schools available to the student. This reason is probably secondary to the reason that the quality of education is better in private schools because the school has an incentive to educate. One way to improve the quality of education would be to provide better incentives for public schools and public school teachers. Another way would be to subsidize private schools to increase the number of these institutions available to students. Any plan to subsidize private schools would have to be carefully designed in order to avoid giving private schools the same incentives that public schools now have. An inappropriate subsidy scheme could destroy the virtues of private schools.[8]

[7] Just because somebody tries hard to be a baseball star, a concert violinist, or a used car salesman does not mean he will be good at it. These professions pay the better participants more, thus weeding out individuals with little aptitude. Education would improve if the same applied to teachers.

[8] This is probably a good reason to oppose subsidiztion of private schools in general. Everybody who is in education has an incentive to favor a subsidy scheme that works in the favor of existing teachers and administrators rather than in favor of good (Cont.)

If private schools were to be subsidized, a plan with proper incentives would be essential to the furtherance of quality education. The remainder of this paper will outline a subsidy plan that would provide the proper incentives to educators.

Subsidies for Schools

If the history of government subsidies teaches any lesson, it is that people respond to incentives. The aid to dependent children plan pays money to single-parent families, and the highly publicized result is that husbands have been leaving their wives so that the remaining broken family is eligible for subsidization. Medicare pays doctors for seeing patients, with the result that some doctors schedule unbelievable number of patients per hour. The doctor gets his subsidy, and the patient who pays nothing has little incentive to complain. Unemployment compensation pays people to be out of work, with the result being a higher unemployment rate due to people who are responding to the incentive to be unemployed.[9]

[8](Cont.) education. Since educators would be the strong lobbyists, an actual subsidy plan would probably provide security and income to educators rather than incentives of good teaching.

[9]For some interesting documentation of this last idea, see Kenneth W. Clarkson and Roger E. Meiners, "Institutional Changes, Reported Unemployment, and Induced Institutional Changes," Journal of Monetary Economics (Forthcoming, Vol. 10, 1979).

Schools will respond to subsidies in the same way, by producing those characteristics for which the government is willing to pay.

Keeping this in mind, a good school subsidization plan is the voucher system that was proposed by Milton Friedman.[10] Under Friedman's voucher plan, a student could choose the school he wished to attend, and the school would receive a per pupil sum of money for each student attending the school. The revenue would be raised in the same manner that it now is. It would just be paid to schools on the basis of the number of students choosing to attend. Private and public schools would each receive subsidies in the same manner, thus obscuring the difference between the two and giving private schools a chance to compete on an equal footing with public schools. Under the voucher system, schools have the incentive to produce the type of education that consumers want, since the greater the number of students that choose to attend a school, the larger the revenues of that school. Schools that produced education judged unsatisfactory in the marketplace would go out of business.

There are two closely related problems with the voucher system that must be resolved before a voucher system can be enacted. The first is determining what type of education is socially desirable, and so deserves subsidization. For instance, one school may have classes oriented entirely toward basic

[10]Milton Friedman, Capitalism and Freedom (Chicago: The University of Chicago Press, 1962), Chapter 6.

skills, while another teaches subjects such as horseback riding, ballet, and golf in addition to the basic skills. Should both of these schools be subsidized? To subsidize only one would limit the freedom of choice of individuals to pursue the type of education they desire. Yet, in the latter school, one would strongly suspect that some academic skills are being sacrificed in order to entertain the student (or perhaps to make the student more well-rounded).

The second problem is determining the criteria for subsidization. Too liberal a standard would make the hypothetical Joe's Garage example in the beginning of the paper become a reality. Too strict a standard would eliminate variety in the types of schools available. The following plan improves upon the voucher system by dealing with these problems.

The Incentive Plan

Presumably, the social benefit from education is a more highly educated person. Therefore, if the subsidy is intended to finance the increase in academic skills, schools should be subsidized for increasing a person's academic skills. Schools that add large increments to an individual's academic ability should be highly rewarded for producing a good product. Schools that add less to an individual's academic ability are less deserving of reward, and should receive less. Under this plan, schools would be subsidized in a manner similar to the way that the market rewards firms. Firms that produce products consumers want receive high monetary rewards, while firms that are less able to satisfy the demands of consumers must accept lower monetary rewards. Under the plan presented below, schools would receive subsidies in proportion to the amount that their students learned each year.

This type of plan would require general agreement as to what constituted the appropriate knowledge, and fortunately there is a general agreement, at least at the elementary and secondary level. Communications skills, basic mathematics, some history and perhaps some knowledge about current institutions would constitute a generally agreed upon body of knowledge that should be acquired through elementary and secondary school. Schools could be judged on their ability to transmit this knowledge to students through the use of standardized exams. At the end of each year (and at the beginning of the first grade to be subsidized) every student would take a standardization examination to determine his academic ability. The amount that a student improved from one year to the next would be judged by comparing his present score with his score last year, and the school would be subsidized based upon the amount of improvement. The greater the improvement in the student's score, the larger the subsidy would be for that student. This way, schools would be paid based upon the amount of knowledge they imparted to their students. Schools that produced a lot of education would be paid more than schools that produced little education for their students.

Standardized examinations are probably the most accurate indicator of academic ability which could be used. The reader skeptical of the use of standardized examinations to accurately determine academic ability should keep in mind the heavy reliance placed upon standardized examination results for college and graduate school admission. Even in these circumstances, where admissions personnel have access to grades, letters of recommendation, and a host of other information voluntarily provided by the candidate, most schools require results from the SAT, GRE, LSAT, or similar examination as a prerequisite for admission. And regardless of other circumstances, students will not be admitted unless they score above some minimum required score. That these tests are relied on so heavily says quite a bit about their ability to assess academic ability. Much information is generated about a student (grades, for example) during the course of his academic career. Rather than solely accept this information, institutions of higher education require an applicant to take a standardized examination and then weight the results heavily in assessing the student's potential. This suggests that standardized examinations provide an excellent indicator of academic ability.

Similar tests could be designed for each grade level, with the areas to be tested on reflecting those areas of basic knowledge that the student should acquire. The amount of the subsidy per pupil would be determined by the amount of additional knowledge that the student had acquired during the course of a school year, rather than on the absolute level of the student's score. Thus, a relatively dull student might improve a great deal during the year, but his end of the year test score might still show him to be below average. His school would receive a larger subsidy for his education than the subsidy for a bright student who showed little additional improvement but remained above average. The schools would be subsidized based on the amount of improvement in academic skills shown by its students rather than on how smart the students are. This way, there would be no financial advantage to teaching bright or dull students, since schools would be rewarded based upon the increment that they add to the student's knowledge.

In addition to the subsidy paid for producing incremental knowledge, schools might also receive a bonus subsidy for each of its students in the top 10 percent of all students. Students in the top 10 percent have little room to improve, so schools might otherwise have an incentive to avoid top students. Also, it would make sense to devote more educational resources toward those students who have shown an aptitude for academics.

Under this plan, schools would not be limited to spending only the subsidy for the education of its students. The schools could augment the subsidy with tuition charges, admission to football games, selling candy, or any other method they would desire. The subsidy would simply be an additional reward to schools that did a good job of educating, since schools would be

subsidized in proportion to their educational output. Under such a system, some schools would probably operate from the subsidy alone, while others would use tuition or other charges to increase per pupil expenditures.

This system has the advantage of allowing schools to retain flexibility in the type of curriculum they would offer. A school could use any type of teaching method, and could offer any types of classes, from horseback riding to TV repair. The subsidy would be paid based upon the increment of academic knowledge acquired, so that schools with subject offerings of this type would probably have to find additional funding to finance the programs.[11] If the market judged these types of programs to be worthwhile, they would be included in the curriculum. This system would also provide an incentive for teaching innovations, since any innovation that could increase the knowledge of the student would be rewarded by an increase in the subsidy.

The reader might foresee some type of strategic bidding for promising students by schools. Schools would have an incentive to offer scholarships to students that showed promise of improvement, or perhaps to exceptional students that would improve the academic environment for other students. Such payments, if they existed, would not be detrimental to the system. They would simply allow rents to accrue to the student generating the rent rather than to the school. Indeed, at the college level, the bidding for students of top academic (and athletic) ability is accepted as routine.

[11] Friedman, op. cit., suggests that basic skills may have a public goods nature to them and should be subsidized for the sake of efficiency, while more vocationally oriented programs provide financial benefits directly to the educated, and subsidization cannot be argued for on the same grounds.

Conclusion

Any plan to subsidize private schools must deal with the problem of what standard should be used to qualify for the subsidy. The variable subsidy proposed in this paper which is determined by the incremental knowledge imparted to the student has several strong arguments to recommend it. It provides the highest rewards to the schools that do the best job, thus providing an incentive to educate. This aspect would make the educational system more responsive to the criticism that schools are not educating students. In addition, the system allows each school the freedom to decide its own curriculum and teaching methods. Successful schools will attract students, while unsuccessful schools will go out of business. Schools that are heavily vocationally oriented would also be able to receive some subsidy, but only for the increased academic ability of their students. This would allow flexibility, but smaller subsidies would go the less academically inclined institutions. This seems more reasonable than allowing a school to receive a standard subsidy

for compliance to some standards, and no subsidy for noncompliance. Innovation in teaching methods would be encouraged, and schools that provided an education would not be eliminated from subsidization because of noncompliance with some standard.

The system presented here appears to have much to offer as a method of distributing educational vouchers. The plan is presented here only in its roughest outline, and the reader can doubtless think of ways that the system could be augmented and improved. The plan here was only to present a framework upon which an effective subsidization system could be constructed. Hopefully, these ideas can serve as a catalyst from which incentives to provide quality education can be strengthened.